MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: April 2022

The S&P 500 returned 3.71% in March, in contrast to negative returns in January and February. For the year-to-date period through March 31st, the S&P 500 has returned -4.60%. Small cap stocks, as measured by the Russell 2000, returned 1.24% in March, and have returned -7.53% on a year-to-date basis as of March 31, 2022. This contrasts with the 14.82% return for calendar year 2021. Large Cap Growth outperformed Value in March with the Russell 1000 Growth returning 3.91% and the Russell 1000 Value returning 2.82%. On a year-to-date basis as of March 31, 2022, Large Cap Value has outperformed Large Cap Growth with a return of -0.74% versus -9.04%. In March, the Russell 2000 Value returned 1.96% and the Russell 2000 Growth returned 0.46%. On a year-to-date basis as of March 31, 2022, Small Cap Value outperformed Small Cap Growth with a return of -2.40% for Small Cap Value versus Small Cap Growth at -12.63%.

Financial news headlines continue to be led by the invasion of Ukraine by Russia and the related economic sanctions, the increase in the Federal Funds rate in March and the likelihood of further rate hikes, 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), 73.9% of the United States population over 12 years old is fully vaccinated against COVID-19, with 86.5% of the population having received at least one dose as of March 29th. COVID-19 cases and hospitalizations are continuing to fall dramatically across the country.

Returns by Sector

	S&P 500		Russell 2000	
Sector	Mar. 2022	YTD	Mar. 2022	YTD
Communication Services	0.95	-11.92	2.43	-6.11
Consumer Discretionary	4.91	-9.03	-5.85	-17.14
Consumer Staples	1.81	-1.01	-1.35	-7.42
Energy	8.96	39.03	16.97	41.82
Financials	-0.19	-1.48	-3.47	-6.80
Health Care	5.56	-2.58	1.86	-14.56
Industrials	3.38	-2.36	2.63	-5.52
Information Technology	3.49	-8.36	1.12	-13.62
Materials	6.11	-2.37	3.11	-1.10
Real Estate	7.79	-6.22	4.44	-4.68
Utilities	10.36	4.77	6.54	3.18
TOTAL RETURN	3.71%	-4.60%	1.24%	-7.53%

Source: Bloomberg

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ABOUT ZCM MARKET INSIGHTS

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

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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 6.9% in the fourth quarter of 2021 according to the "third" estimate released by the Bureau of Economic Analysis (BEA). This is a slight decrease from the "second" estimate of 7.0%. The revision primarily reflected downward revisions to personal consumption expenditures (PCE) and exports that were partly offset by an upward revision to private inventory investment. The increase in real GDP primarily reflected increases in private inventory investment, exports, PCE, and non-residential fixed investment that were partly offset by decreases in both federal and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) registered 57.1 in March, an decrease of 1 point from the February reading of 58.6. A reading of over 50 is considered to be expansionary. This figure indicates expansion in the overall economy for the 22nd month in a row after a contraction in April and May 2020. According to the ISM, "The U.S. manufacturing sector remains in a demand-driven, supply chain-constrained environment. In March, progress was made to solve the labor shortage problems at all tiers of the supply chain, which will result in improved factory throughput and supplier deliveries. Panelists reported lower rates of quits and early retirements compared to previous months, as well as improving internal and supplier labor positions. March brought back increasing rates of price expansion, due primarily to instability in global energy markets. Suppliers are not waiting to experience the full impacts of price increases before negotiating with their customers. Panel sentiment remained strongly optimistic regarding demand, with six positive growth comments for every cautious comment, down from February's ratio of 12-to-1."

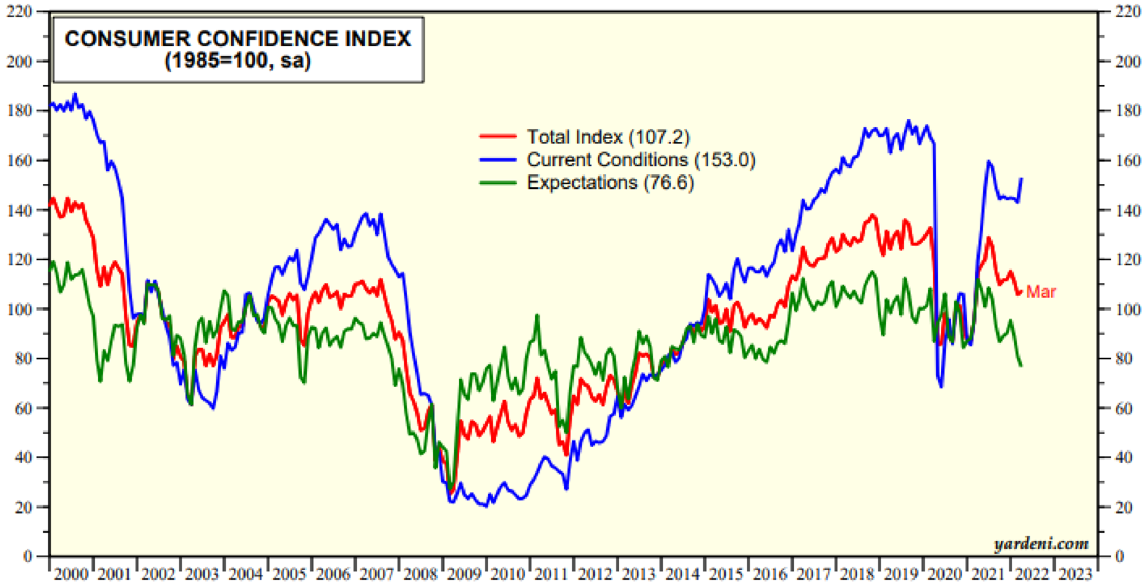
According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate decreased to 3.6% in March from 3.8% in February. Total non-farm payroll employment rose by 431,000 in March. In March, notable job gains continued in leisure and hospitality, professional and business services, retail trade, and manufacturing. The number of unemployed decreased by 318,000 in March to 6.0 million people. Both measures continue to fall and are significantly lower than their April 2020 highs and are now roughly in line with their February 2020 pre-pandemic levels of 3.5% and 5.7 million people. The labor force participation rate was 62.4% in March, little changed from February. It has remained in a narrow range since June 2020, with the last four readings the highest rate in that period.

The U.S. savings rate was 6.3% in February, decreasing slightly from 6.4% in January. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020. Personal income increased $101.5 billion (0.5%) in February, according to the Bureau of Economic Analysis (BEA). Disposable personal income increased $76.1 billion (0.4%) and personal consumption expenditures (PCE) increased $34.9 billion (0.2%). The increase in personal income in February primarily reflected an increase in compensation that was partly offset by a decrease in government social benefits. Within compensation, the increase reflected increases in both private and government wages and salaries. Within government social benefits, a decrease in “other” benefits was offset by increases in Medicare and Medicaid. The $34.9 billion increase in current-dollar PCE in February reflected an increase of $93.8 billion in spending for services that was offset by a $58.9 billion decrease in spending for goods. Within services, the largest contributor to the increase was spending for food services and accommodations. Within goods, spending on motor vehicles and parts was the leading contributor to the decrease.

The Federal Reserve raised the target range of its Federal Funds rate by 25 basis points to a range of 25 to 50 basis points at its March meeting. This is the first increase in more than three years, with six more expected in 2022 and three more in 2023. The accompanying press release stated: "Indicators of economic activity and employment have continued to strengthen. Job gains have been strong in recent months, and the unemployment rate has declined substantially. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and broader price pressures." Of the nine voting members present at the meeting, eight voted in favor of the 25-basis point rate increase, including Chair Jerome Powell and Vice Chair Nominee Lael Brainard. The only dissenting vote was cast by James Bullard, who favored a rate hike of 50 basis points. The statement noted key contingencies that may affect the future course of monetary policy including the Russia and Ukraine war. The statement said: "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the U.S. economy are highly uncertain, but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity." The statement further added: "The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals (i.e., maximum employment and inflation at 2% over the longer run). The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments." In addressing its’ nearly $9 trillion balance sheet, the Fed said, “the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.”

Consumer Confidence increased slightly in March to 107.2, up from a revised 105.7 in February. Consumer Confidence recently reached a peak of 128.9 in June 2021. According to a statement from the Conference Board, “Consumer confidence was up slightly in March after declines in February and January. The Present Situation Index rose substantially, suggesting economic growth continued into late Q1. Expectations, on the other hand, weakened further with consumers citing rising prices, especially at the gas pump, and the war in Ukraine as factors. Meanwhile, purchasing intentions for big-ticket items like automobiles have softened somewhat over the past few months as expectations for interest rates have risen.” The Present Situation Index (based on consumers’ assessment of current business and labor market conditions) improved to 153.0 from a revised downward 143.0 in February. The Expectations Index (based on consumers’ short-term outlook for income, business, and labor market conditions) declined to 76.6 in March from a revised downward 80.8 in February. According to information from the BEA, the consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence



The Bloomberg U.S. Aggregate Bond Index returned -2.78% in March and has returned -5.93% on a year-to-date basis as of March 31st. This is on the heels of a -1.54% return for calendar year 2021. The 10-Year U.S. Treasury ended March at 2.34% after ending February at 1.83% 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 March with a flat spread of zero basis points (2-year: 2.34% and 10-year: 2.34%). 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 March at 116 basis points, 6 basis points tighter than the February month end of 122 basis points. Spreads began 2022 with a reading of 92 basis points.

West Texas Intermediate (WTI) finished March at $100.28 per barrel, increasing 4.8% from February at $95.72 per barrel. WTI has increased 33.3% from beginning 2022 at $75.21 per barrel. This is on the heels of a 58.9% increase in 2021. Turmoil from invasion of Ukraine by Russia, the related sanctions and increasing demand 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 March at 20.62, decreasing 31.6% from the February month end reading of 30.15. The VIX has increased 19.7% after beginning 2022 with a reading of 17.22. Movement in the VIX has largely been driven by market turbulence over inflation, increasing interest rates and the war 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 20.

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.

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