MARKET INSIGHTS

from Ziegler Capital Management

Monthly Market Commentary: May 2022

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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 and their size, 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), 74.5% of the United States population over 12 years old is fully vaccinated against COVID-19, with 87.2% of the population having received at least one dose as of April 28th. COVID-19 cases and hospitalizations are continuing to fall dramatically across the country.

The S&P 500 returned -8.72% in April, returning to negative performance seen in January and February after a positive March. For the year-to-date period through April 30th, the S&P 500 has returned -12.92%. Small cap stocks, as measured by the Russell 2000, returned -9.91% in April, and have returned -16.69% on a year-to-date basis as of April 30, 2022. This contrasts with the 14.82% return for calendar year 2021. Like January and February, Large Cap Value outperformed Growth in April with the Russell 1000 Value returning -5.64% and the Russell 1000 Growth returning -12.08%. On a year-to-date basis as of April 30, 2022, Large Cap Value has outperformed Large Cap Growth with a return of -6.34% versus -20.03%. In April, the Russell 2000 Value returned -7.76% and the Russell 2000 Growth returned -12.27%. On a year-to-date basis as of April 30, 2022,

Returns by Sector

	S&P 500		Russell 2000	
Sector	Apr. 2022	YTD	Apr. 2022	YTD
Communication Services	-15.62	-25.68	-17.12	-22.18
Consumer Discretionary	-13.00	-20.85	-6.73	-22.72
Consumer Staples	2.56	1.53	-1.50	-8.81
Energy	-1.54	36.89	-3.07	37.47
Financials	-9.87	-11.21	-9.10	-15.29
Health Care	-4.71	-7.16	-16.97	-29.07
Industrials	-7.53	-9.71	-8.75	-13.82
Information Technology	-11.28	-18.70	-12.17	-24.11
Materials	-3.49	-5.78	-7.95	-8.94
Real Estate	-3.56	-9.56	-7.60	-11.93
Utilities	-4.25	0.32	-6.65	-3.68
TOTAL RETURN	-8.72%	-12.92%	-9.91%	-16.69%

Source: Bloomberg

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

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Small Cap Value outperformed Small Cap Growth with a return of -9.97% for Small Cap Value versus Small Cap Growth at -23.35%.

The “Build Back Better” plan remains in limbo with reports it may be broken into smaller bills in hopes to secure passage of parts of the larger bill prior to the November mid-term elections. 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 in the current framework. 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) decreased at an annualized rate of 1.4% in the first quarter of 2022 according to the "advance" estimate released by the Bureau of Economic Analysis (BEA). The decrease in real GDP reflected decreases in private inventory investment, exports, federal government spending, and state and local government spending, while imports (which are a subtraction in the calculation of GDP) increased. Personal consumption expenditures (PCE), nonresidential fixed investment, and residential fixed investment increased. The decrease in private inventory investment was led by decreases in wholesale trade (mainly motor vehicles) and retail trade (notably, "other" retailers and motor vehicle dealers). Within exports, widespread decreases in nondurable goods were partly offset by an increase in "other" business services (mainly financial services). The decrease in federal government spending primarily reflected a decrease in defense spending on intermediate goods and services. The increase in imports was led by increases in durable goods (notably, nonfood and nonautomotive consumer goods). The increase in PCE reflected an increase in services (led by health care) that was partly offset by a decrease in goods. Within goods, a decrease in nondurable goods (led by gasoline and other energy goods) was partly offset by an increase in durable goods (led by motor vehicles and parts). The increase in nonresidential fixed investment reflected increases in equipment and intellectual property products.

The Institute for Supply Management’s (ISM) Purchasing Managers' Index (PMI) registered 55.4 in April, a decrease of 1.7 points from the March reading of 57.1. A reading of over 50 is considered to be expansionary. This figure indicates expansion in the overall economy for the 23rd 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 April, progress slowed in solving labor shortage problems at all tiers of the supply chain. Panelists reported higher rates of quits compared to previous months, with fewer panelists reporting improvement in meeting head-count targets. April saw a slight easing of price expansion, but instability in global energy markets continues. Surcharge increase activity across all industry sectors continues. Panel sentiment remained strongly optimistic regarding demand, though the three positive growth comments for every cautious comment was down from March’s ratio of 6-to-1. Panelists continue to note supply chain and pricing issues as their biggest concerns.”

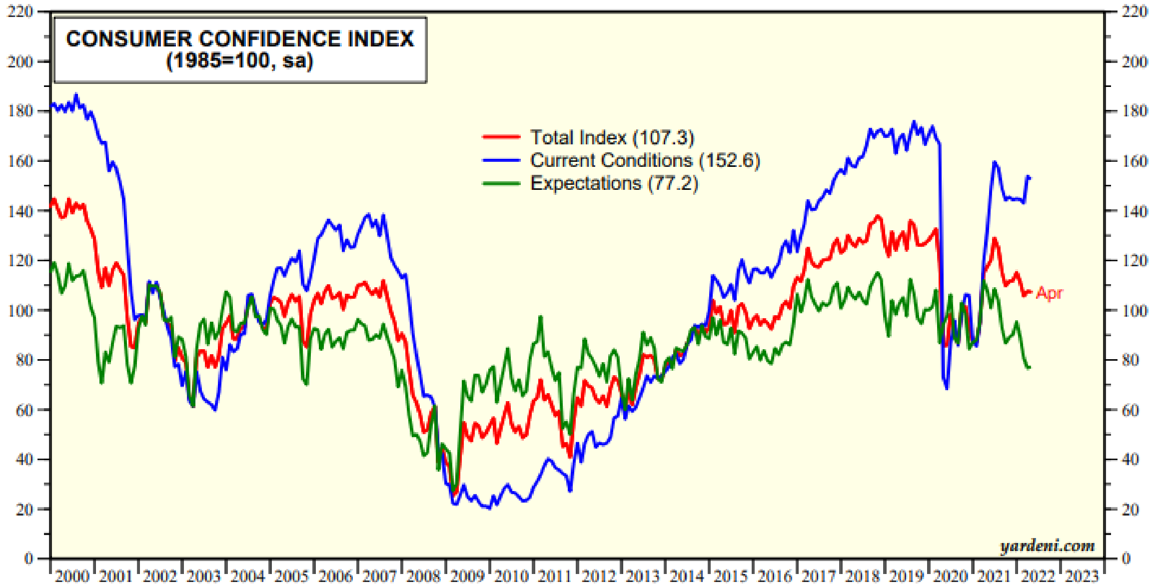
According to the U.S. Bureau of Labor Statistics (BLS), the unemployment rate decreased to 3.6% in March from 3.8% in February. Total non-farm payroll employment rose by 431,000 in March. In March, notable job gains continued in leisure and hospitality, professional and business services, retail trade, 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 6.2% in March, decreasing from a revised 6.8% in February. The long-term average savings rate is approximately 9% after its stunning peak of 32.2% in April 2020. Personal income increased $107.2 billion (0.5%) in March, according to the Bureau of Economic Analysis (BEA). The increase in personal income in March primarily reflected an increase in compensation, proprietors' income, personal income receipts on assets, and government social benefits. Within compensation, the increase reflected increases in both private and government wages and salaries. The increase in proprietors' income was in farm income, reflecting increased crop and livestock prices. The increase in personal income receipts on assets was led by personal interest income. The increase in government social benefits was led by Medicare and Medicaid. The $185.0 billion increase in current-dollar PCE in March reflected an increase of $114.6 billion in spending for services and an increase of $70.4 billion in spending for goods. Within services, increases were widespread across all subcomponents and led by "other" services (including international travel) as well as food services and accommodations. Within goods, an increase in nondurable goods (led by gasoline and other energy goods) was partly offset by a decrease in spending on durable goods (led by motor vehicles and parts).

In the minutes released from its' March meeting, Federal Reserve officials discussed how they wanted to reduce the Fed's balance sheet and reached a consensus around $95 billion a month with a maximum of $60 billion in Treasuries and $35 billion in Mortgage-Backed securities being allowed to "roll off" beginning in May. At the meeting, the Fed approved its first interest rate increase in more than three years. The 25-basis point increase lifted the short-term borrowing rate from the near-zero level where it had been since March 2020. The Fed further discussed the pace of interest rate increases ahead including the potential for hikes of 50-basis points at upcoming meetings. Uncertainty over the war in Ukraine deterred some voting governors in March from going with a 50-basis point move at that time. "Many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified," the minutes said. The Fed meets again on May 3rd and 4th with consensus expectations of a 50-basis point increase.

Consumer Confidence decreased slightly in April to 107.3, down from an upward revised 107.6 in March. Consumer Confidence recently reached a peak of 128.9 in June 2021. According to a statement from the Conference Board, "Consumer confidence fell slightly in April, after a modest increase in March. The Current Conditions Index declined, but remains quite high, suggesting the economy continued to expand in early Q2. The Expectations Index, while still weak, did not deteriorate further amid high prices, especially at the gas pump, and the war in Ukraine. Vacation intentions cooled but intentions to buy big-ticket items like automobiles and many appliances rose somewhat. Still, purchasing intentions are down overall from recent levels as interest rates have begun rising. Meanwhile, concerns about inflation retreated from an all-time high in March but remained elevated. Looking ahead, inflation and the war in Ukraine will continue to pose downside risks to confidence and may further curb consumer spending this year." The Current Conditions Index (which is based on consumers' assessment of current business and labor market conditions) declined to 152.6 from an upward revised 153.8 in March. The Expectations Index (which is based on consumers' short-term outlook for income, business, and labor market conditions) increased to 77.2 in April from an upward revised 76.7 in March. 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 -3.79% in April and has returned –9.50% on a year-to-date basis as of April 30th. This is on the heels of a -1.54% return for calendar year 2021. The 10-Year U.S. Treasury ended April at 2.94% after ending March at 2.34% 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 April with a spread of 22 basis points (2-year: 2.72% and 10-year: 2.94%). 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 April at 135 basis points, 19 basis points wider than the March month end of 116 basis points. Spreads began 2022 with a reading of 92 basis points.

West Texas Intermediate (WTI) finished April at $104.00 per barrel, increasing 3.7% from March at $100.28 per barrel. WTI has increased 38.3% since beginning 2022 at $75.21 per barrel. This is on the heels of a 58.9% increase in 2021. Turmoil from the 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 April at 33.35, increasing 61.7% from the March month-end reading of 20.62. The VIX has increased 93.7% 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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