April 2022 Recap

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Everything seemed to go up in April as the impact of the European war continued to ripple across the world. The cost of living, of buying necessities in daily life increased dramatically, threatening the health of corporate and consumer cash flow. In the U.S. the focus landed squarely on consumers: their capacity to spend was constrained with rising wages failing to keep up with the prices of goods. Also heading upward were borrowing costs, notably in the housing market with the average 30-year fixed mortgage rate rising above 5% for the first time since 2011. As the cost of nearly everything headed north at a rapid pace, the Federal Reserve responded with increasingly tough stance toward inflation, and the financial markets reacted with a selloff.

GLOBAL EQUITY

April saw extended losses in the global equity markets as prices of goods soared and sovereign bond yields spiked. As of the end of the month, the S&P 500 Index was in technical correction territory, and small cap stocks in the Russell 2000 Index have entered bear market[1]. The pattern of returns reflected a market that is wary of high valuations in growthy names and of an unfriendly economic environment for cyclical exposure. Value continued to outperform growth: the repricing of risk assets was more severe for growth stocks and Tech-oriented names, and investors preferred defensive sectors such as Consumer Staples, Utilities, and Real Estate. It was a market that could not find momentum in its upward swing, and market recovery one day would be sold the next.

TABLE 1: **Global Equity**	APR	QTD	YTD	1 YR
Dow Jones Industrial Average	-4.82	-4.82	-8.73	-0.82
S&P 500 Index	-8.72	-8.72	-12.92	0.21
Russell 2000	-9.91	-9.91	-16.70	-16.94
Russell 1000 Growth	-12.08	-12.08	-20.03	-5.36
Russell 1000 Value	-5.64	-5.64	-6.34	1.32
MSCI ACWI USD	-8.00	-8.00	-12.93	-5.46
MSCI EAFE USD	-6.47	-6.47	-12.00	-8.17
MSCI EM USD	-5.56	-5.56	-12.15	-18.38
MSCI ACWI ex US USD	-6.28	-6.28	-11.38	-10.34

Source: Bloomberg, as of 4/30/2022. Past performance does not guarantee future returns.

As of April 29th, 55% of companies in the S&P 500 Index have reported earnings, and the blended earnings growth rate is 7.1%[2]. The majority of the companies have reported with a positive surprise on earnings, but the market did not reward it. In fact, the few that missed expectations were severely punished: Netflix's decrease in subscriptions resulted in a 35% single-day loss of its stock value, and Amazon's slowing of sales saw its stock fall by 14% the next day. The volatility in the equity markets have adjusted the valuations down from sky high levels, but with inflation and uncertainties of economic growth looming ahead, earnings expectations may also need to be kept in check.

The risk-off mode in the equity markets meant flight-to-quality moves in the currency market. As investors flocked to the safety of the U.S. dollar (USD), the currency market saw large movements, especially against the Japanese yen and the euro. The impact was felt the most in the MSCI EAFE Index, where local investors may have experienced -1.4% in returns, but the U.S. investors felt a more severe downturn of -6.5%. The currency difference was less prominent in the MSCI EM Index, but China being its largest constituent, the zero COVID-19 policy and the resulting lockdowns detracted meaningfully to the losses. Looking ahead, the USD looks expensive to compared to other major currencies, but the murky outlook on global economic growth, the energy challenges in Europe, as well as the diverging central bank policies around the world may sustain the attractiveness of the USD.

1 Market correction is defined as 10% or more decline from the recent peak, and bear market is defined as 20% or more decline from the recent peak.
2 FactSet Earnings Insight, 4/29/2022

FIXED INCOME

It has been a difficult year so far for portfolio diversification with losses in fixed income assets that are traditionally considered to be a hedge against equity market volatility. Yet another month of losses in the general bond market brings year-to-date performance for the Bloomberg U.S. Aggregate Bond Index to -9.5%. With yields marching higher across the entire Treasury yield curve, longer duration assets continue to be hit hard. In particular, the Bloomberg Investment Grade Corporate Index has posted double-digit losses year to date. From a technical standpoint, Treasuries may have been oversold as markets tend to overshoot in both directions. There are many uncertainties that still lie ahead, including whether or not the Fed would be able to accomplish the contractionary policies that are priced into the Treasury market without causing a major slowdown in economic activity. It is possible that we see yields fall in the coming months, adjusting to reality as it unfolds.

TABLE 2: **Fixed Income**	APR	QTD	YTD	1 YR
Bloomberg US Aggregate	-3.79	-3.79	-9.50	-8.53
Bloomberg 1-3 Yr Gov/Credit	-0.54	-0.54	-3.01	-3.51
Bloomberg Treasury 5-7 Yr	-2.66	-2.66	-8.14	-8.19
Bloomberg Investment Grade Corp	-5.47	-5.47	-12.73	-10.45
Bloomberg High Yield Corp	-3.56	-3.56	-8.22	-5.23
JPMorgan EMBI Global Diversified	-5.59	-5.59	-15.05	-14.51

Source: Bloomberg, as of 4/30/2022. Past performance does not guarantee future returns.

Much has been said in the media about the 2-year to 10-year section of the Treasury yield curve that inverted at the end of the first quarter. While the shorter segment of the inversion has recovered during April, the yield curve is currently not in its healthy “steep” form. The curve inversion is not some technical crystal ball on future recessions; it cannot tell us the depth of the potential contraction, why it may happen, nor the timing of it. However, history shows us that curve inversions have preceded recessions and can be a reliable indicator. And these inversions happen because global participants in the Treasury market may be hedging along the curve, perhaps because the future prospects may not be worth the risk that is required. As we confront a slowing economy and a global community that may be less willing to take risks on Wall Street as well as on Main Street, we could see yields fall and a potential return of a curve inversion.

CODA

The war in Europe may have been conceived in Putin’s mind as a short stint to take over Ukraine, but the Ukrainian people have shown tremendous resilience and the fighting spirit to defend their land. So the war rages on in Europe, and in China, we are reminded that COVID-19 remains a challenge. These struggles amplify the sudden rise in prices of critical goods, and we expect high prices to persist in the months ahead. Milton Friedman said that “inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.”[3] The focus of the current inflationary state is that the output has dramatically decreased through shortages compared to the quantity of money. Cost-push, supply-side induced inflation is not solvable by waving a monetary wand, where the Fed can implement aggressive tightening while somehow sparing the economy from a hard landing. We hope to see consumers and corporations navigate high prices and tightening financial conditions to keep the economic engine humming through these challenging times.

3 Friedman, Milton “Inflation: Causes and Consequences,” in Dollars and Deficits (Friedman 1968, chap.1), summary of lectures delivered in Bombay, India, in 1963.

Anna Rathbun serves as the Chief Investment Officer for CBIZ Investment Advisory Services. Her tenure with the firm has spanned economic and market research, portfolio construction, and creating insights in investment themes to share with the investment community. Anna began her career in investments at Wellington Management, and subsequently, Harvard. She has served as a Managing Director for a registered investment advisory firm where she specialized in alternative investments. She is a graduate of Harvard University with a B.A. in Economics. Her early passion for the arts led her to classical music, for which she obtained a Master of Music and Doctor of Musical Arts from the Cleveland Institute of Music. Anna’s career in music spanned a wide spectrum of performances to a faculty position at her alma mater. With a unique background that embraces both finance and the arts, Anna is dedicated to the issue of financial sustainability for organizations serving a mission.