MONTHLY MARKET UPDATE

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INVESTMENT RESEARCH TEAM

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SUMMARY

- Markets hate uncertainty and we are in uncertain times with the war in Ukraine and the Fed Reserve rate hike decisions.
- Markets saw a large reversal on 2/24 when Russia started attacking points around Ukraine, from the Nasdaq trading down close to 3% to start the session, to closing the day up over 3%.
- The S&P 500 is currently trading in and out of correction territory and the Nasdaq is in a bear market.
- The Federal Reserve will hold its March 2022 meeting March 15th-16th. It is widely anticipated the Federal Reserve will raise interest rates by one of two amounts — either +0.25% or +0.50%.
- We are seeing price restraint when companies beat earnings expectations and harsher declines when they miss adding to the risk off mentality.
- The U.S. housing market experienced its highest one-year increase in home prices in at least 34 years in 2021.
- January retail sales showed consumer spending was much better than expected early this year rising 3.8% versus economist expectation of 1.8%.
- Consumer prices rose 7.5% over the last year, above economist expectations of 7.3%, marking the highest level since February 1982.
- The inflation measure preferred by the Federal Reserve, known as the personal consumption expenditures (PCE) price deflator, rose 0.6% in January, or 0.5% when volatile food and energy are excluded.
- January jobs numbers was an unexpected stunner showing a tight labor market.
- Facebook reported disappointing earnings and guidance this month, causing shares to crater.

COMMENTARY

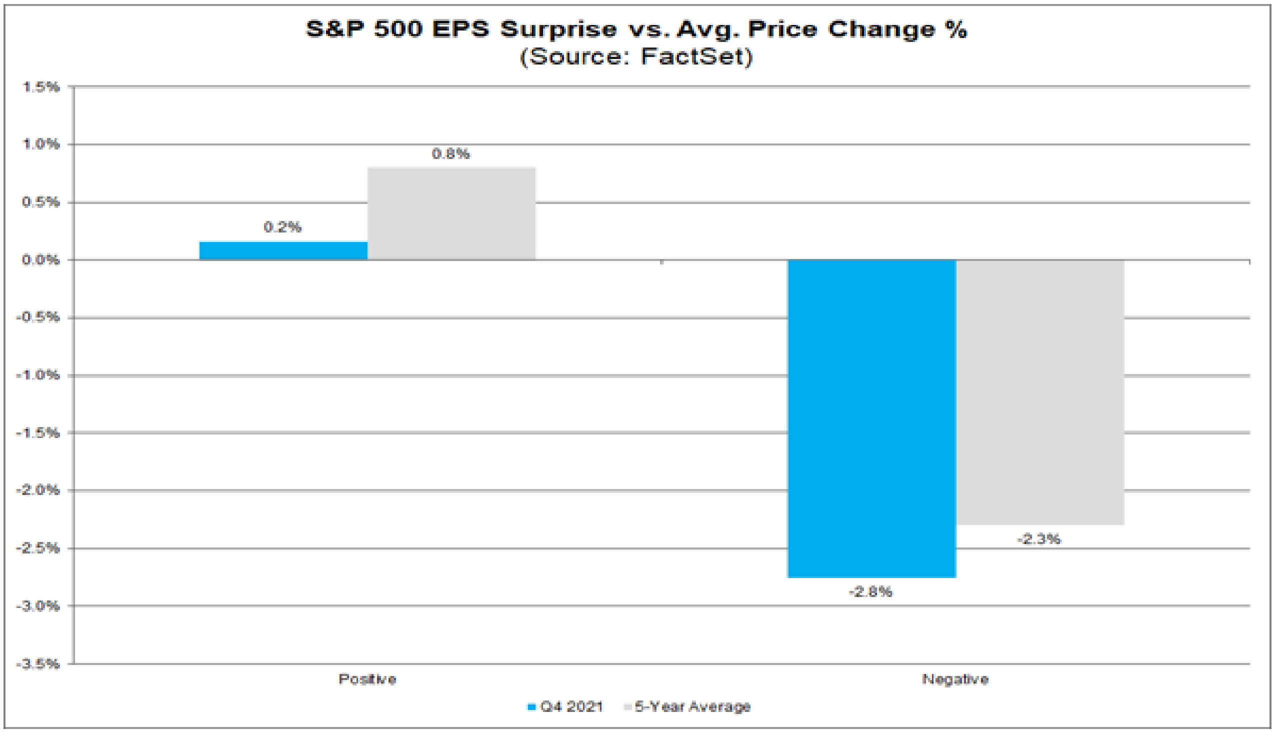
Markets hate uncertainty and we are in uncertain times. From the war in Ukraine to the Federal Reserve, the markets are not certain which direction either will go. The conflict between Russia and Ukraine could strain supply chains further and increase energy costs causing more inflation. Such a scenario would put the Federal Reserve in a bind on whether to raise interest rates quickly and potentially rattle markets further or stimy economic growth.

There were questions regarding the large reversal on 2/24 when Russia started attacking points around Ukraine, from the Nasdaq trading down close to 3% to start the session, to closing the day up over 3%. Market participants explained this as Biden's speech confirming no boots on the ground for US troops, strategic release of oil from reserves to help keep energy costs down, and the Federal Reserve being slower in their anticipated rate hikes because of the geopolitical crisis which is why higher valuation stocks saw the largest price increases on the day.

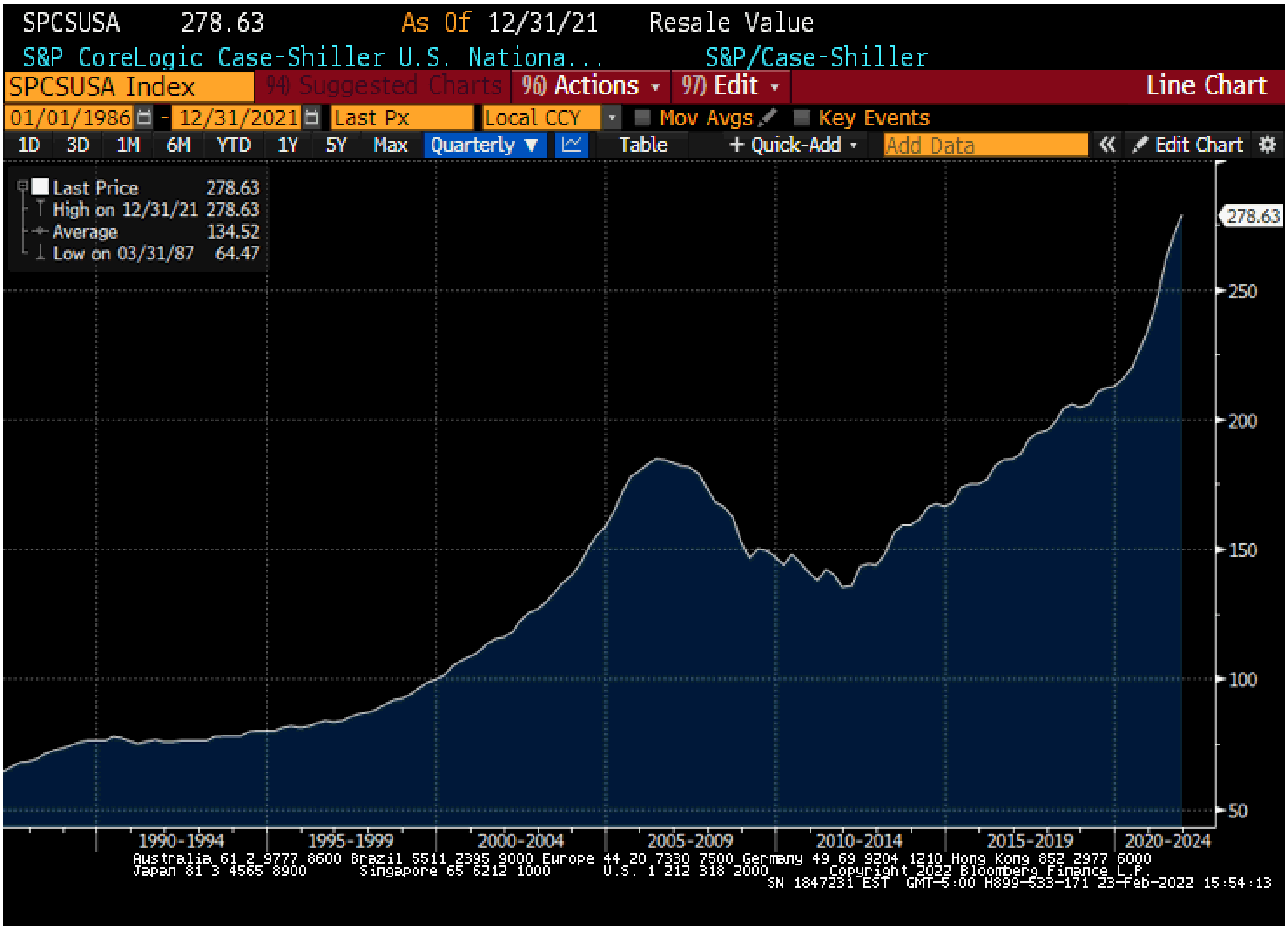
Of note, the S&P 500 is trading in and out of correction territory and the Nasdaq is in a bear market. A correction indicates a stock market sell-off of 10% or more from a recent high and a bear market is 20%. On average, the market typically has one correction a year, according to Ned Davis Research.

The Federal Reserve will hold its March 2022 meeting March 15th-16th. It is widely anticipated the Federal Reserve will raise interest rates by one of two amounts — either +0.25% or +0.50%. Although the 0.25% difference between the two options may seem insignificant, we believe the decision will chart the course for the remainder of 2022. If the Federal Reserve only raises the interest rate by +0.25%, investors may interpret the smaller increase as a sign the Federal Reserve will keep interest rates lower for longer, inferring economic growth will be less impacted. If the Federal Reserve raises the interest rate by +0.50%, investors may view the faster pace of interest rate increases as more likely to slow economic growth and potentially trigger a recession. The takeaway is investors will be watching the Federal Reserve's next move very closely as it will set the course for the remainder of 2022.

With overall risk off mentality, we are seeing price restraint to the upside when companies reported better Earnings Per Share (EPS) than analyst expectations and harsher declines when companies missed as shown by FactSet.

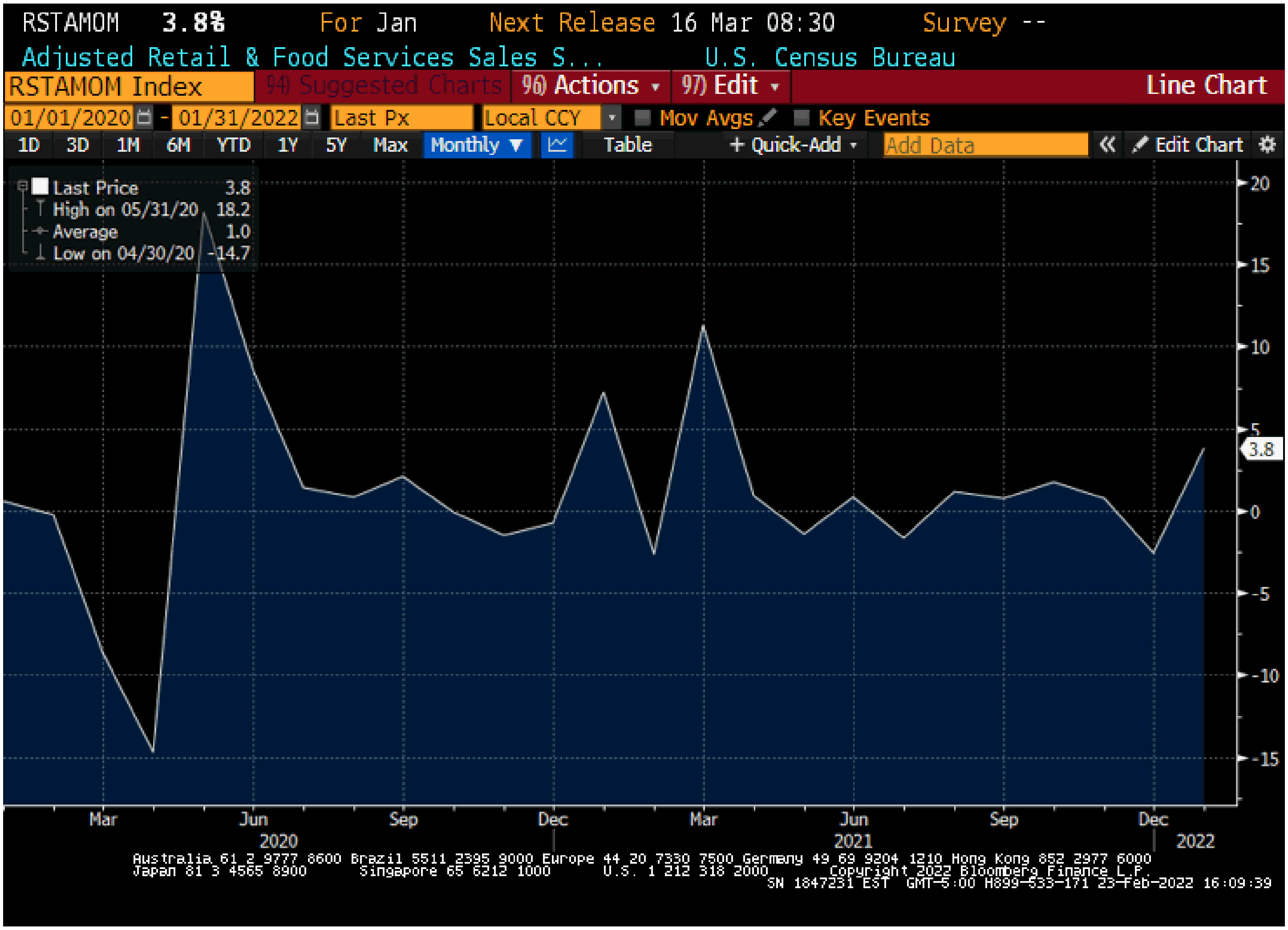


Looking at the data, the U.S. housing market experienced its highest one-year increase in home prices in at least 34 years in 2021. U.S. home prices soared 18.8% over 2020 levels, according to the S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index. An insufficient supply of new homes has been a big reason for the price spike, but help may be on the way with homebuilding activity increasing, with the number of new housing units under construction rising to the highest level in nearly 50 years.



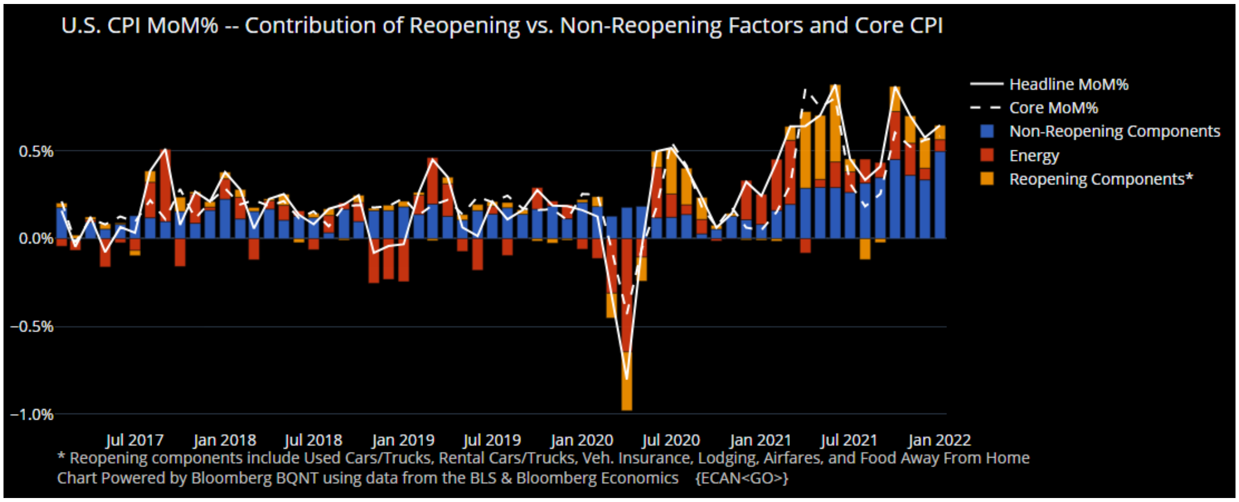
Source: Bloomberg

January retail sales showed consumer spending was much better than expected early this year rising 3.8% versus Economist expectation of 1.8%. Part of the jump is just because January prices rose 0.6%. This data point is closely followed because consumption is 68% of the US economy and Americans are still spending.



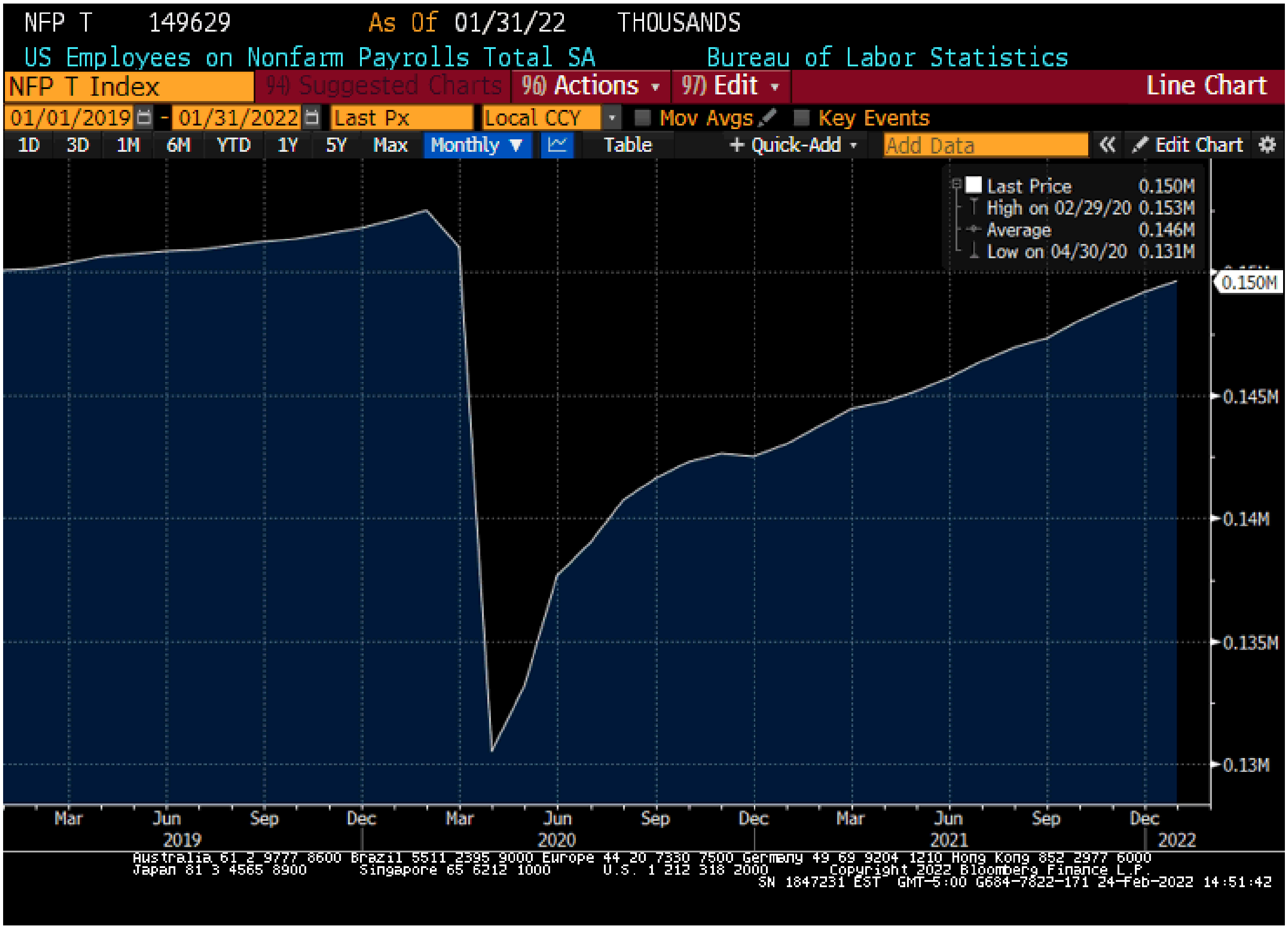
Source: Bloomberg

The 0.6% rise in the Consumer Price Index (CPI) last month undermines the idea that inflation will remain contained to a handful of industries and fade with time. Consumer prices rose 7.5% over the last year, above economist expectations of 7.3%, marking the highest level since February 1982. A high CPI will make the Federal Reserve more inclined to raise interest rates more aggressively than planned and take other steps to try to rein in prices before they spiral further. The war in Ukraine could add pressure to prices.



Adding to the inflation narrative, the inflation measure preferred by the Federal Reserve, known as the personal consumption expenditures (PCE) price deflator, rose 0.6% in January, or 0.5% when volatile food and energy are excluded. Over the last 12 months, the index was up 6.1% (5.2% excluding food and energy), a new four-decade high.

After expectations of a bad January jobs numbers due to the Omicron variant, they turned out to be the opposite. Employers added 467,000 jobs last month despite the slowdown due to the Omicron variant. Leisure and hospitality added 151,000 jobs; retail added 61,000; and transportation and warehousing added 54,000. The report offered more evidence that this is an exceptionally tight labor market, with inflationary pressures brewing. It is important to note, December's jobs report was also revised upwards.



Source: Bloomberg

Meta, formerly Facebook, reported disappointing 4th quarter and full year 2021 earnings last month causing shares to decline. The Facebook app lost roughly 1 million daily active users in the most recent quarter, the first ever drop in users. The numbers reinforce to skeptics that the Facebook social network is now a legacy product for Meta, where the focus has shifted to newer realms like messaging, Instagram video, and the metaverse. Meta's stock plunged in response to weaker than expected revenue growth forecasts for the first quarter. Those weak forecasts, attributable to continued headwinds from Apple's privacy changes, show the vulnerability of Facebook's business model being tied to targeted advertising against social networking, as opposed to search. The stock now trades in "value" territory at less than 14x forward earnings per share which some Wall Street analysts think is a bargain for the social network with roughly 2.91 billion monthly active users as of the fourth quarter of 2021.

Source: Bloomberg

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THIS MONTH IN NUMBERS

FIGURE 1

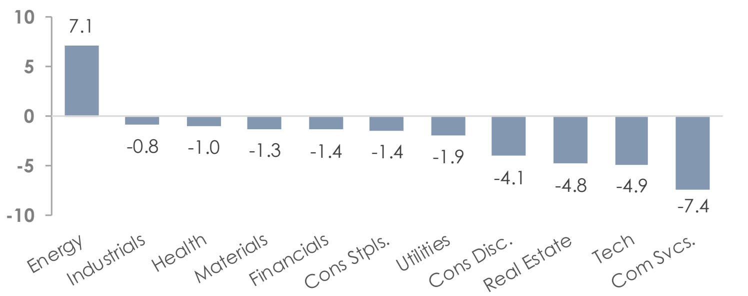
U.S. Style Returns (February in %)

	Value	Blend	Growth
Large	-1.2	-3.0	-4.2
Mid	-0.5	-0.7	-1.2
Small	1.5	1.0	0.6

Data Reflects Most Recently Available As of 2/28/2022

FIGURE 2

U.S. Sector Returns (February in %)



Data Reflects Most Recently Available As of 2/28/2022

FIGURE 3

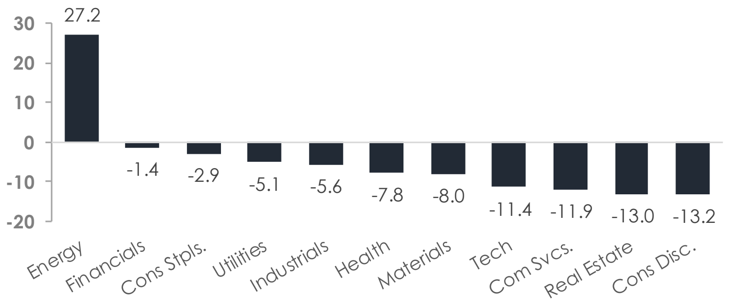
U.S. Style Returns (YTD in %)

	Value	Blend	Growth
Large	-3.5	-8.1	-12.5
Mid	-4.8	-8.1	-14.0
Small	-4.4	-8.6	-12.9

Data Reflects Most Recently Available As of 2/28/2022

FIGURE 4

U.S. Sector Returns (YTD in %)



Data Reflects Most Recently Available As of 2/28/2022

FIGURE 5

Market Data Center

Stocks	Level	1 month	3 months	YTD	1 year	3 years
S&P 500	4,374	-3.0%	-3.8%	-8.1%	16.3%	62.8%
Dow Jones	33,893	-3.2%	-1.2%	-6.4%	11.5%	37.6%
Russell 2000	5,090	1.0%	-6.5%	-8.6%	-5.9%	33.7%
Russell 1000 Growth	1,777	-4.2%	-10.7%	-12.5%	12.5%	84.4%
Russell 1000 Value	984	-1.2%	2.5%	-3.5%	14.7%	38.5%
MSCI EAFE	1,281	-3.4%	-2.7%	-6.9%	2.5%	23.8%
MSCI EM	67,088	-4.3%	-2.8%	-4.3%	-11.2%	17.1%
NASDAQ	13,751	-4.5%	-11.8%	-12.8%	10.9%	103.1%

Dividend Yield	NTM P/E	P/B
1.31%	18.8x	4.3x
1.71%	17.2x	4.5x
1.03%	19.7x	2.2x
0.57%	24.8x	11.3x
1.68%	14.9x	2.5x
3.57%	13.9x	1.7x
2.08%	11.8x	1.8x
0.49%	24.8x	7.7x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	1.80%	-1.1%	-3.5%	-3.1%	-2.6%	10.1%
U.S. Corporates	2.42%	-2.1%	-5.7%	-5.6%	-3.4%	16.9%
Municipals (10 yr)	1.84%	-0.5%	-2.9%	-2.9%	-0.7%	9.3%
High Yield	4.16%	-0.9%	-1.3%	-3.5%	0.8%	11.6%

Key Rates	2/28/2022	1/31/2022	11/30/2021	8/31/2021	2/28/2021	2/28/2019
2 yr Treasury	1.43%	1.16%	0.52%	0.20%	0.14%	2.50%
10 yr Treasury	1.84%	1.78%	1.44%	1.30%	1.46%	2.71%
30 yr Treasury	2.19%	2.10%	1.78%	1.93%	2.19%	3.09%
30 yr Mortgage	4.25%	3.78%	3.23%	3.03%	3.25%	4.40%
Prime Rate	3.25%	3.25%	3.25%	3.25%	3.25%	5.50%

Commodities	Level	1 month	YTD
Oil (WTI)	95.72	8.6%	27.3%
Gasoline	2.69	5.7%	21.0%
Natural Gas	4.42	-9.3%	24.3%
Propane	1.31	12.7%	26.7%
Ethanol	2.16	8.3%	-12.0%
Gold	1,901	5.8%	3.9%
Silver	24.37	8.8%	4.3%
Copper	4.44	2.9%	-0.2%
Steel	1,056	-9.4%	-26.4%
Corn	6.91	10.3%	16.4%
Soybeans	16.28	9.4%	24.0%

Data Reflects Most Recently Available As of 2/28/2022

Source: MarketDesk Research

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