



WEEKLY MARKET UPDATE, MAY 2, 2022

GENERAL MARKET NEWS

· As we approach the Federal Reserve (Fed)'s May 3-4 meeting, last week's GDP report for the first quarter of 2022 is a poignant reminder of the fine line the Fed must walk to appropriately balance the risks of continued inflation and the potential for a rate-induced recession. The production decline of 1.4 percent on an annualized basis marks the weakest quarter since spring of 2020 when the Covid-19 pandemic initially kicked off in the United States. Still, the underlying data and strength of consumers and businesses point to continued growth for the U.S.—if supply chain issues continue to ease and the pandemic remains at bay. This fundamental strength is a key focus as the Fed looks for signs that the economy will be able to support a relatively aggressive tightening policy in the months ahead.

The U.S. Treasury yield curve experienced some flattening last week. The 2-year and 5-year U.S. Treasury yields were up 10 basis points (bps) and 1bp (to 2.62 percent and 2.84 percent), respectively; the 10-year and 30-year U.S. Treasury yields fell 8 bps and 3 bps (to 2.83 percent and 2.90 percent), respectively.

· Global markets sold off last week as concerns over global growth, geopolitical tensions, and supply chain issues continued

to ramp up. We saw the release of the first quarter gross domestic product report, which shows the size of an overall economy, for the U.S. and it indicated a surprising decline of 1.4 percent. The second concern around global growth came as China vowed to issue additional economic stimulus to ensure that they meet their 5.5 percent growth target. While this aided the view that the global economy had recently been growing at a slower-than-expected pace, it did lead emerging market equities to move higher. Additional geopolitical tensions came as Russia vowed to shut off gas to Poland and Bulgaria after the countries refused to join their ruble-based network for energy payments. This news sent natural gas prices within Europe higher and added to inflation and global supply chain concerns amid the recent lockdowns within China. Within U.S. markets, materials, energy, utilities, and consumer staples sectors were among the top performers. The worst-performing sectors were consumer discretionary, financials, and communication services as earnings misses by Alphabet (GOOGL) and Amazon (AMZN) led these sectors lower.

· On Tuesday, the preliminary March durable goods orders report was released. Orders of durable goods increased 0.8 percent, slightly less than the expected 1 percent increase.

Core durable goods orders, which strip out the impact of volatile transportation orders, beat expectations, rising 1.1 percent against calls for a 0.6 percent increase. This better-than-expected result is a good sign for business spending and helps calm concerns of a potential slowdown in business investment following February's 0.5 percent drop in core orders. This marked the best month for core orders growth since April 2021, an encouraging sign that business owners continue to invest to meet high levels of demand despite headwinds from rising prices and uncertainty.

- Tuesday also saw the release of the Conference Board Consumer Confidence report for April. The report showed that confidence declined slightly from an upwardly revised 107.6 in March to 107.3 in April against calls for an increase to 108.2. Despite the modest miss against expectations, the index still remains well above the lows that we saw earlier in the pandemic, supported by the ongoing economic recovery and the strong job market. Consumer views on the current conditions for the economy dimmed, but expectations for the future improved as concerns around inflation moderated. The survey showed that consumers were more likely to plan big ticket purchases such as cars and appliances in April, an encouraging sign for consumer spending. Plans for foreign travel saw a notable uptick, another positive sign.

- On Thursday, the advanced estimate of 2022 first-quarter GDP growth was released. The report showed that the economy surprisingly contracted during the first quarter, with GDP declining 1.4 percent on an annualized basis. This was down from the 6.9 percent annualized growth rate we saw in the fourth quarter and below economist estimates for a 1 percent increase. The surprise decline was due in large part to international trade, as a surge in imports

led to record trade deficits that weighed on headline growth. In fact, international trade detracted 3.2 percent from headline GDP growth, as export growth paled in comparison with import growth to start the year. Despite the slowdown in headline growth, personal consumption improved to start the year, with the report showing a 2.7 increase in consumption on an annualized basis, up from 2.5 percent in the fourth quarter. Economists expect to see a return to growth, supported by robust consumer demand and business investment, in the second quarter.

- We finished the week with Friday's release of the March personal income and personal spending reports. Income and spending both increased more than expected, and February's results were revised upward. Personal spending rose 1.1 percent in March, up from an upwardly revised 0.6 percent increase in February and above estimates for a more modest 0.6 percent increase. Personal income rose 0.5 percent in March following a 0.7 percent rise in February and above calls for a 0.4 percent increase. This marks three straight months of increased spending and six straight months of rising income. Although part of the increase in spending was attributable to higher prices, consumer demand was so strong that even inflation-adjusted personal spending increased more than expected in March. Spending growth to start the year has been well supported by the strong job market, which has supported the solid wage growth we've seen.

WHAT TO LOOK FORWARD TO

On Monday, the ISM Manufacturing survey for April will be released. This measure of manufacturer confidence surprisingly dropped from 57.1 in March to 55.4 in April against calls for an increase to 57.6. This is a diffusion index where values above 50 indicate growth, so this report showed continued

expansion for the manufacturing industry despite the miss against expectations. The drop in the index was largely due to softer demand for manufactured goods, as the report showed the measure of new orders fell to its lowest level since May 2020. Hiring also showed signs of weakness during the month. All in all, this report showed that the recovery of the manufacturing industry slowed, but the industry is expected to improve in the months ahead.

On Wednesday, the March international trade balance report will be released. Economists expect to see the monthly trade deficit widen to its largest point on record, with forecasts calling for the trade deficit to increase from \$89.2 billion in February to \$97 billion in March. The previously released advanced estimate for the trade of goods showed the goods trade deficit widening from \$106.3 billion in February out to \$125.3 billion in March. An 11.5 percent surge in imports of goods during the month was more than enough to offset a 7.2 percent rise in exports. International trade was a major drag on overall economic growth in the first quarter; this was due, in large part, to the high levels of domestic consumer demand for goods and services that we saw to start the year. Looking forward, economists largely expect to see the trade deficit start to normalize in the months ahead, which, in turn, could help support overall economic growth.

Wednesday will also see the release of the ISM Services index for April. Service sector confidence is expected to improve during the month, with the index set to rise from 58.3 in March to 58.7 in April. As was the case with the manufacturing survey, this is a diffusion index where values above 50 indicate growth. If estimates hold, this would mark two consecutive months with improved service sector confidence following four months of declines. Service sector confidence suffered at the end of 2021 and the start of 2022 due to the surge in Covid-19 cases related to the

Omicron variant. If we see more improvement in service sector confidence in April, it would signal that business owners are gaining confidence that the worst from the pandemic is largely behind us. Historically, improving confidence has helped support faster business spending, so any improvement in April would be welcome.

The third major release on Wednesday will be the FOMC rate decision from the Fed's May meeting. Markets and economists expect to see the Fed increase the upper bound of the federal funds rate from 0.5 percent to 1 percent at this meeting. This anticipated 50 bp interest rate hike is part of the Fed's response to high levels of inflation throughout the economy, as higher rates are used by the central bank as a way to slow the economy to combat rising price pressure. This will represent the second consecutive meeting with an interest rate hike, as the Fed started hiking rates with a 25 bp increase at its March meeting. Looking ahead, markets are currently pricing in an additional 10 rate hikes by the end of the year, including the 2 that are expected on Wednesday. Aside from the anticipated rate hike, the Fed is also expected to provide more details on its plan to reduce the size of its balance sheet. The central bank is expected to announce plans of reducing the balance sheet rapidly throughout the year and into 2023 to tighten monetary policy and combat rising prices. Fed meetings will continue to be widely monitored events throughout the year given the importance of monetary policy on markets and the economy.

We'll finish the week with Friday's release of the April employment report. The report is expected to show that 390,000 jobs were added during the month, down from the 431,000 jobs that were added in March. If estimates hold, this would mark 16 straight months of job growth, which highlights the impressively resilient recovery of the labor market over the past year. The unemployment rate is expected to remain unchanged at 3.6

percent, which would tie the pandemic-era low that was set last month. Average hourly earnings are expected to increase 0.4 percent during the month and 5.5 percent on a year-over-year basis, which would be largely in line with the wage growth we saw in March. Looking forward, economists expect to see job growth continue to cool in the months ahead, but slower growth is still growth and would be understandable given the low unemployment rate. The job market recovery has been impressive since the start of the pandemic and appears to be the major driver of the overall economic recovery. This report is expected to highlight the continued strength of the labor market to start the second quarter.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-3.26%	-8.72%	-12.92%	0.21%
Nasdaq Composite	-3.92%	-13.24%	-21.00%	-11.08%
DJIA	-2.47%	-4.82%	-8.73%	-0.82%
MSCI EAFE	-2.20%	-6.47%	-12.00%	-8.15%
MSCI Emerging Markets	0.08%	-5.56%	-12.15%	-18.33%
Russell 2000	-3.94%	-9.91%	-16.69%	-16.87%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-3.79%	-9.50%	-8.51%
U.S. Treasury	-3.10%	-8.50%	-7.35%
U.S. Mortgages	-3.51%	-8.31%	-8.76%
Municipal Bond	-2.77%	-8.82%	-7.88%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed

securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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