

# Market Review and Outlook

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1Q2022



## Market Review

Heightened volatility during the first quarter (period) created a challenging environment across both equity and fixed income markets. Persistently high inflation weighed on the economy and led to increased expectations that the Federal Reserve (Fed) may have to take a more aggressive stance on rate hikes and quantitative tightening. The Fed increased short-term rates by 25-basis points during its March meeting, the first in over three years, and projects six more rate hikes in 2022. Geopolitical concerns surrounding the Russian invasion of Ukraine created additional challenges during the quarter as a series of subsequent sanctions led to a commodity supply shock, pushing inflation higher and increasing risks to global growth. This creates a potentially challenging environment for central banks as they may be forced to choose between tempering inflation and supporting growth. However, monetary policy remains supportive for now, and a strong labor market, positive wage growth, and robust corporate and personal savings support economic growth and reduce the odds of a US recession in 2022.

The S&P 500 Index fell -4.6% for the first quarter. Energy (+39.0%) led sector performance by a wide margin as commodity prices reached extreme levels resulting from supply chain disruption and higher inflation. Utilities (+4.8%) was the only other sector to post positive returns for the quarter, helped by its more defensive characteristics. Communication services (-11.9%) had the largest underperformance, hurt by continuing antitrust regulatory issues and increased competition within the sector. Stretched valuations within the consumer discretionary (-9.0%)

and information technology (-8.4%) sectors led to a meaningful pullback in performance for the quarter. From a market capitalization perspective, small cap equities lagged large and mid-cap equities. Value outperformed growth by a wide margin.

Developed international equities as measured by the MSCI EAFE Index fell -5.8% during the first quarter. Like the US, both the European Central Bank and the Bank of England continued to move away from accommodative monetary stimulus measures. Surging energy prices resulting from sanctions imposed on Russia created sizeable disruption for the region due to its reliance on imported Russian oil and natural gas. The MSCI Emerging Markets Index declined -6.9% for the quarter, hurt by elevated geopolitical uncertainty stemming from the Russia/Ukraine conflict. China also faced challenges stemming from a new outbreak of COVID-19 and the subsequent lockdowns to try to contain the virus.

Unlike in previous periods where fixed income provides a diversification benefit in the face of equity market declines, the Bloomberg US Aggregate Index, a proxy for investment-grade fixed income, declined -5.9% in the first quarter. Treasury yields rose across maturities and the yield curve flattened, with the spread between 2-year and 10-year yields briefly inverting at the end of the period. The 10-year Treasury yield finished the quarter at 2.32%. Credit spreads widened during the quarter but remain low relative to historical levels. Municipals were negative, in line with US government bonds.

# Market Outlook

The US economy continues to exhibit solid growth, although geopolitics, inflation, and Federal Reserve policy are taking center stage. Global markets have begun to recover from earlier declines, while yields continue to rise across longer maturities. The Federal Reserve has indicated that more aggressive action may be needed going forward in order to stem inflation. The situation in Ukraine drudges on, with related headlines contributing to price volatility across asset classes. We continue to monitor corporate earnings

as we enter the second-quarter earnings season, as well as the health and attitude of the US consumer. A strong labor market, wage growth, and healthy consumer balance sheets have been beneficial for the economy, but the nagging of inflation and geopolitical worries may curtail spending. We expect continued market volatility as we experience a normalization of liquidity and policy as well as heightened geopolitical concerns, a backdrop that is favorable for our active approach.

## Brinker Capital Market Barometer

SHORT-TERM FACTORS (< 6 months)					
	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	→		●		Market momentum and breadth have notably improved
Trend	→		●		Major indices have moved back above their moving averages to varying degrees
Investor sentiment				●	Surveys show significantly more bears than bulls, a contrarian indicator
Seasonality				●	In a mid-term election year, more seasonal support through April
INTERMEDIATE-TERM FACTORS (6-36 months)					
	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Fiscal drag a headwind in 2022; unlikely to see any major new fiscal spending
Monetary policy				●	Fed may have to more aggressively hike, but balance sheet still supportive for now
Inflation		●			Persistently high inflation may cause Fed to adjust timeline; weighing on sentiment
Interest rate environment	←		●		Rates remain historically low, however, parts of the yield curve have inverted
Macroeconomic				●	Economic growth continues to be solid (e.g. employment, housing, spending)
Business sentiment				●	Business confidence measures declined from recent highs, but remain elevated
Consumer sentiment	←	●			Consumer sentiment and spending are deteriorating as inflation persists
Corporate earnings				●	Broad-based strength in earnings although pace of growth will decelerate
Credit environment				●	Corporate credit spreads are widening but still at tight levels relative to history
LONG-TERM FACTORS (36+ months)					
	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		Equity valuations have moved closer to long-term averages
Business cycle				●	In an economic expansion period with positive GDP growth since 3Q20
Demographics			●		Emerging markets with more favorable trends overall than developed markets

Source: Brinker Capital. Information accurate as of April 1, 2022.



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For more information about Brinker Capital and our investment philosophy, including information on fees, you may request a copy of our Form ADV Part 2A from a Brinker Capital Client Services representative at 800.333.4573 or [clientservice@brinkercapital.com](mailto:clientservice@brinkercapital.com).