Weekly Market Update

General Market News

- Yields came down a bit across the U.S. Treasury curve last week. The U.S. 2-year yield was down 5 basis points (bps), ending the week at 1.53 percent, and the 5- and 10-year yields were each down 13 bps to 1.73 percent and 1.84 percent, respectively. The 30-year yield fell 6 bps to finish the week at 2.22 percent. While nothing is set in stone at this time, the messaging is becoming a bit clearer as to what investors should expect for an anticipated interest rate hike at the Federal Reserve (Fed)'s upcoming March 15–16 meeting. Fed Chair Jerome Powell indicated that Russia's invasion of Ukraine will likely add to inflationary pressures and that the Fed will likely raise interest rates by 25 bps.
- Global markets fell last week as investors took a risk off approach amid uncertainty surrounding the conflict in Ukraine. The combination of heavy sanctions and cutting business ties led to defensive positioning by investors. The largest moves last week were in energy and commodities since Russia and Ukraine are major global producers. West Texas Intermediate Crude oil posted a weekly gain of more than 26 percent. Wheat futures were up significantly as well, gaining more than 40 percent. Aluminum and gold also posted strong gains. Microsoft (MSFT), Mastercard (MA), Visa (V), and Apple (AAPL) were among the worst performers as they announced they would cut services or sales to Russia as a rebuke to Vladimir Putin's decision to enter Ukraine. Technology, financials, and consumer discretionary were among the hardest hit sectors . Energy, healthcare, utilities, and industrials fared well as inflation had a more muted impact. European equities were among the hardest hit because they're more reliant on Russian commodities such as oil and gas.
- On Tuesday, the ISM Manufacturing survey for February was released. This closely followed a greater-than-expected increase during the month in measure of manufacturing confidence, which rose from 57.6 in January to 58.6 in February against calls for a more modest increase to 58. This is a diffusion index where values greater than 50 indicate growth, so this better-than-expected result left the index in healthy expansionary territory following a modest decline in January. The improvement in February was driven by an increase in new orders, but supply shortages caused delivery times to slow to an 11-year low. Overall, this report showed that demand for manufactured goods remains strong and indicates further growth in the months ahead for the manufacturing industry. That said, tangled supply chains and labor shortages are expected to serve as a headwind for the sector in the short term.
- Thursday saw the release of the ISM Services survey for February. Service sector confidence unexpectedly dropped during the month as the index fell from 59.9 in January to 56.5 in February against calls for an increase to 61.1. This surprising result brought the index to its lowest level since February 2021. As was the case with the manufacturing survey, values above 50 indicate growth in this diffusion index, so the result still signaled continued expansion for the service sector. The service sector suffered from labor shortages and high levels of employee turnover, a major headwind for faster growth in February. Economists expect to see service sector confidence rebound in March as the impact from the most recent wave of Covid-19 continues to fade; this will be a closely monitored release in the months ahead, however, given that the service sector accounts for the majority of economic activity in the country.

General Market News (continued)

- We finished the week with Friday's release of the February employment report. The report showed 678,000 jobs were added during the month, far greater than the forecasted 423,000. The December and January job reports were also revised up by an additional 92,000 jobs. This better-than-expected result marks the best month for job gains since October 2021, indicating that the impact from the recent wave of infections on hiring has largely declined. The job gains were widespread, with no single sector accounting for the majority of the hiring increase.

The underlying data was encouraging as well; unemployment fell from 4 percent in January to 3.8 percent in February against calls for a drop to 3.9 percent. Labor force participation also increased by more than expected, which is an encouraging sign that folks continued to reenter the workforce to start the year. All in all, the report is encouraging, signaling that the economic momentum from the end of 2021 carried over well into 2022 despite headwinds from inflation and the Omicron variant.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.24	–1.01	–8.94	14.26
Nasdaq Composite	–2.76	–3.17	–14.80	3.72
DJIA	–1.23	–0.77	–7.15	8.72
MSCI EAFE	–6.51	–6.57	–12.66	–3.46
MSCI Emerging Markets	–2.29	–2.24	–6.95	–12.73
Russell 2000	–1.92	–2.27	–10.74	–7.79

Source: Bloomberg, as of March 4, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.16	–3.09	–1.70
U.S. Treasury	0.34	–2.21	–0.95
U.S. Mortgages	0.19	–2.25	–2.62
Municipal Bond	–0.22	–3.30	–1.18

Source: Morningstar Direct, as of March 4, 2022

What to Look Forward To

On Tuesday, the international trade balance report for January will be released. The trade deficit is expected to widen from $80.7 billion in December to $87.1 billion in January. If estimates hold, this would represent the largest single-month trade deficit on record, breaking the previous $80.8 billion deficit record set in September 2021. We saw historically large monthly trade deficits throughout 2021 as high levels of domestic demand, supply chain challenges, and the uneven global economic recovery all combined to boost import growth over export growth during the year. The previously released advanced estimate of the trade of goods showed that the trade deficit for goods increased from $100.5 billion in December to a record $107.6 billion in January. Large monthly deficits are expected until we see a more robust global economic recovery.

Thursday will see the release of the February Consumer Price Index report. Consumer prices are expected to show continued growth, with headline prices set to increase 0.8 percent during the month and 7.9 percent on a year-over-year basis. If estimates prove to be accurate, this would cause the pace of consumer inflation to pick up, following a 0.6 percent monthly increase in consumer prices for January. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to increase 0.5 percent during the month and 6.4 percent on a year-over-year basis. Consumer prices have seen notable inflationary pressure throughout the past year, driven by high levels of consumer demand, tangled global supply chains, and rising material and labor costs. The recent invasion of Ukraine is also expected to contribute to short-term inflationary pressure with energy and food prices already starting to see notable increases since the start of the conflict.

We'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for March. Consumer confidence is expected to decline modestly from 62.8 in February to 62.5 in March. If estimates hold, this would bring the index to its lowest level since 2011. Consumer sentiment largely improved through the first half of 2021; however, rising consumer concern about inflation and new medical risks caused the index to drop notably through the second half of 2021 and the start of 2022. Looking forward, we'll likely need to see progress in combatting high inflation levels before the index can return closer to pre-pandemic levels. Historically, improving confidence has helped support faster consumer spending growth—if we start to see confidence improve in the months ahead, it could support future spending growth.

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. Rev. 03/22.

Authored by the Investment Research team at Commonwealth Financial Network®

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