

Retirement Market

RECAP Q1 2022

HANYS Benefit Services

Uncertainty returns with a vengeance

While 2021 proved to be a robust year for US equities and led to cautious investor optimism for a more normalized global economy, the first quarter of 2022 replaced that optimism with uncertainty. The omicron variant in January, Russia's invasion of Ukraine in February and a backdrop of historically high inflation and concerns over central bank policy to combat it contributed to this environment of uncertainty. As these developments commandeered the news cycle, both equity and fixed income markets experienced substantial volatility.

Year to date (YTD) through the first quarter, the S&P 500 is down 4.60%, while the technology-heavy NASDAQ has almost fallen into correction territory (-9.10%) due to growth companies' heightened sensitivity to interest rate swings. Despite strong fourth quarter corporate earnings reports, 2022 earnings outlooks have been overwhelmingly negative for many companies. January's and February's inflation readings reached 7.8% and 7.9%, year over year, respectively, while March surpassed those at 8.5%, the highest since 1982. Inflation will likely eat away at profit margins and the costs of goods will continue rising throughout 2022. As a result, companies will be forced to pass on higher costs to consumers.

Meanwhile, the pandemic continues to disrupt corporate outlooks, hindering staffing as the omicron variant spread throughout the West in January and Asia in February and March. This has led to severe labor shortages in a number of industries, further dampening growth prospects.

Global equity markets have also experienced heightened volatility YTD through the first quarter. Developed international equity markets experienced a loss of 5.91% in the first quarter, facing similar headwinds that the United States has felt. Emerging markets, an underperformer in 2021, performed relatively well compared to other markets in January and most of February, with essentially flat performance.

However, geopolitical tensions caused by Russia's invasion of Ukraine and China's recent COVID-19 outbreaks have hindered both the Chinese markets and the broader MSCI EM Index. At the end of the first quarter, the MSCI EM Index experienced a 6.97% loss.

Within fixed income markets, the Bloomberg Global Aggregate Index experienced its largest drawdown since 1990, down 10.71% from a peak in January 2021 and down 6.16% YTD. The index has suffered from a combination of inflation, which disproportionately affects

bonds by eroding the value of future coupon payments, and dissent among investors over the Federal Reserve's approach to monetary policy. The Fed announced its first interest rate hike at the conclusion of its March 16 meeting, a 25-basis-point hike, and through its "dot plot" signaled six additional hikes this year.

There also appeared to be progress toward the beginning of the runoff of its ballooned \$9 trillion balance sheet, though no specific date was announced. Some investors are concerned that the Fed is behind the curve in its attempt to curb inflation. The Fed, in a change of stance from mid-2021, fully expects inflation to be sticky rather than transitory, with year-end inflation expected at 4.3%.

While rate hiking cycles have tended to coincide with rising stock prices (see chart), recessionary concerns also tend to increase, which can lead to an inverted yield curve. This occurs when shorter term bonds have higher yields than longer term bonds. An inverted yield curve historically has been viewed as a harbinger of a recession. Therefore, the Fed has a difficult decision to face, in which an aggressive approach to decrease demand and curb inflation may lead to a severe recession and higher unemployment, an approach taken by Paul Volker in 1980. A less

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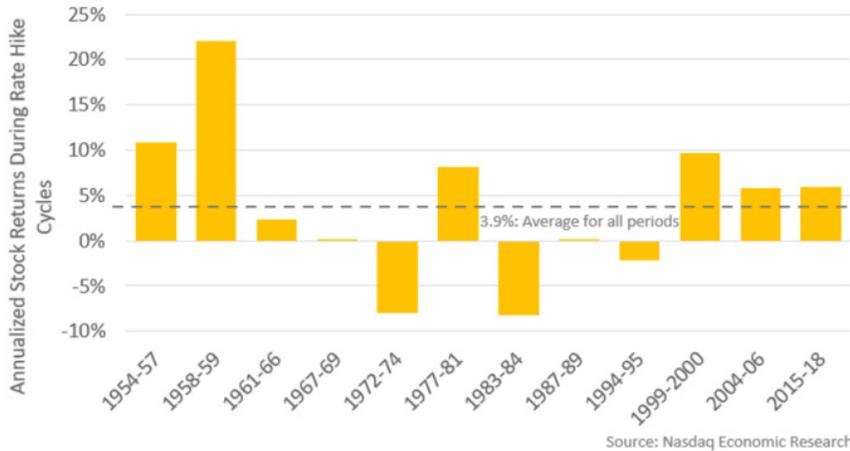
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aggressive approach would continue to allow inflation to run hot for a prolonged period. The Fed's approach to inflation will continue to be a crucial economic situation affecting capital markets in 2022.

Energy surges into 2022

- Despite economic sanctions, Russia continues to have a stronghold on European energy, supplying 45% of the European Unions' (EU) imports and 40% of consumption for an estimated \$108 billion USD in 2021, according to the World Economic Forum.
- In response to the invasion, the US and UK banned Russian imports of energy on March 8, while the EU has attempted to phase out Russian dependence gradually.
- Beginning in April, OPEC+, consisting of OPEC members headed by Saudi Arabia, and Russia have increased production by 400,000 barrels a day to meet

Stock price returns are usually positive during rate hike cycles



- West Texas Intermediate crude oil prices have continued to surge from geopolitical and supply chain constraints, reaching a 2022 high of \$123.70 on March 8, the highest price seen since 2008 on considerable volatility. WTI Crude Oil futures are up 42.77% YTD.
- The first quarter of 2022 has failed to provide a return to a more tranquil

global economy, and instead has developed into one shrouded by uncertainty. The volatility experienced in the first quarter across a variety of asset classes has made it difficult for investors to protect capital. Moving into the second quarter, the concerns of inflation, monetary policy, prolonged geopolitical tensions and the looming effects of the pandemic will remain top of mind to investors as they navigate an uneasy global economic landscape.

EQUITY INDICES	3 MO	1 YR	3 YR	5 YR	FIXED INCOME AND RETIREMENT INDICES	3 MO	1 YR	3 YR	5 YR
S&P 500 TR USD	8.55%	40.79%	18.67%	17.65%	ICE BofA 3M US Trsy Note TR USD	0.02%	0.13%	1.40%	1.20%
Russell 3000 TR USD (Broad Market)	8.24%	44.16%	18.73%	17.89%	ICE BofA 1-3YR US Trsy TR USD	-0.03%	0.07%	2.68%	1.60%
Russell 1000 TR USD (Large Cap)	8.54%	43.07%	19.16%	17.99%	BBgBarclays Long Term US Trsy TR USD	6.46%	-10.58%	7.99%	3.13%
Russell Midcap TR USD	7.50%	49.80%	16.45%	15.62%	BBgBarclays US Aggregate Bond TR USD	1.83%	-0.33%	5.34%	3.03%
Russell 2000 TR USD (Small Cap)	4.29%	62.03%	13.52%	16.47%	BBgBarclays US Treasury US TIPS TR USD	3.25%	6.51%	6.53%	4.17%
MSCI EAFE NR USD (Int'l Equity)	5.17%	32.35%	8.27%	10.28%	BBgBarclays High Yield Corp TR USD	2.74%	15.37%	7.45%	7.48%
MSCI Emerging Markets NR USD (E.M. Equity)	5.05%	40.90%	11.27%	13.03%	BBgBarclays Global Aggregate TR USD (Global Bond)	1.31%	2.63%	4.23%	2.34%

ICE BofAML – Intercontinental Exchange Bank of America Merrill Lynch; BBgBarc – Bloomberg Barclays; S&P 500 – Standard & Poors; MSCI – Morgan Stanley Capital International
Sources: Morningstar as of March 31, 2022

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