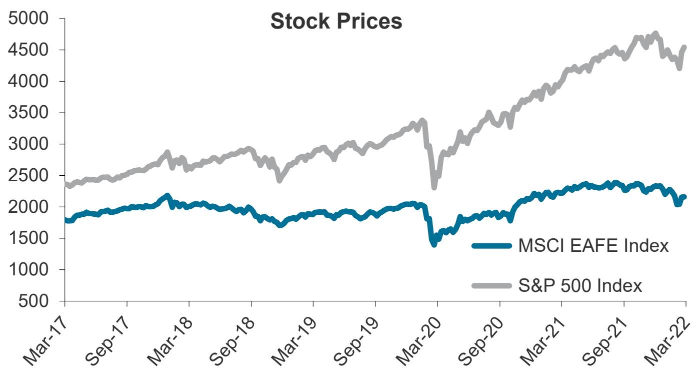
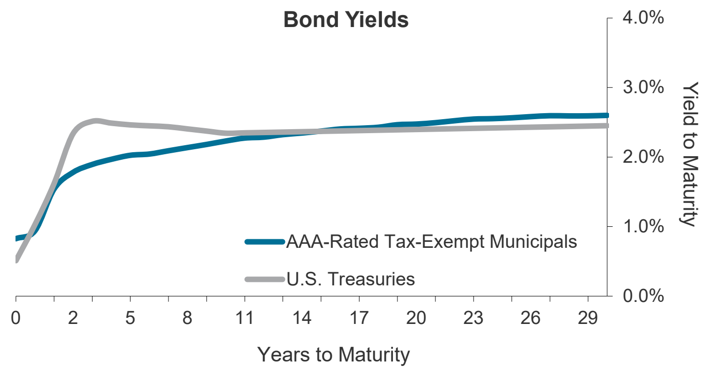
# Quarterly Investment Update

## WORTH KNOWING®

*For the Quarter Ending March 31, 2022*




### Stock Market Commentary

While the S&P 500 Index began 2022 at an all-time high, it plummeted nearly 12.2% by March 14, delivering its first correction in two years. The index recovered from its recent lows despite the ongoing situation in Eastern Europe and returned -4.6% for the first quarter.

Chinese markets fell 14.2% during Q1. The turmoil was fueled by U.S. delisting concerns, a breach of the country's "zero-COVID" policy, and supply chain disruptions. The MSCI Emerging Markets Index ended the quarter down 7.0%, underperforming the developed markets MSCI EAFE Index by 1.2%.

Higher inflation and rising interest rates favored value stocks over growth stocks as the Russell 1000 Value Index fell only 0.7%, while its growth counterpart, the Russell 1000 Growth Index, lost 9.0%. Amid the ongoing global energy crisis, oil prices pushed higher, spurring the energy sector up 38.9% for the quarter. The communications sector suffered the worst return, plunging over 11.9%, influenced primarily by the disappointing earnings report of the largest holding, Meta Platforms, and subsequent 33.9% drop.

In the current environment, market conditions must weather many uncertainties—interest rates, Fed monetary policy, supply chain issues, inflation, COVID-19, and the Ukraine/Russia conflict. However, it is important to remember that proper diversification can be an effective tool to help mitigate risk, and time in the market, rather than timing the market, has worked in favor of long-term investors.

| STOCK MARKETS | 3 Months | 1 Year | 3 Years* |
|---|---|---|---|
| **Large Stocks** | | | |
| S&P 500 | -4.6% | 15.6% | 18.9% |
| Russell 1000 | -5.1% | 13.3% | 18.7% |
| Russell 1000 Growth | -9.0% | 15.0% | 23.6% |
| Russell 1000 Value | -0.7% | 11.6% | 13.0% |
| **Medium and Small Stocks** | | | |
| S&P 400 Midcap | -4.9% | 4.6% | 14.1% |
| Russell 2000 | -7.5% | -5.8% | 11.7% |
| Russell 2000 Growth | -12.6% | -14.3% | 9.9% |
| Russell 2000 Value | -2.4% | 3.3% | 12.7% |
| **International Stocks** | | | |
| MSCI Developed (EAFE) | -5.8% | 1.7% | 8.4% |
| MSCI Emerging Markets | -7.0% | -11.4% | 4.9% |
| **Real Estate** | | | |
| DJ Wilshire REIT Index | -3.7% | 27.7% | 9.9% |

### Bond Market Commentary

Inflation has often been referred to as the "enemy of bonds" and that proved to be true during the first quarter of 2022. Across countries and industries, rising prices were already a concern before the Russian invasion of Ukraine sent oil prices soaring and further exacerbated inflation fears. The Bloomberg US Aggregate Bond Index, a benchmark that measures U.S. government and corporate bond returns, fell 5.9%, representing one of the worst quarters on record for bonds.

With its full employment mandate met, the U.S. Federal Reserve turned its attention to another mandate—maintaining price stability. On March 17, the central bank raised its target federal funds rate a widely expected one-quarter percent, while indicating that as many as six more rate hikes may occur this year. Interest rates throughout the economy began climbing in anticipation of the Fed's moves, including mortgage rates that rose ~1.5% since the start of 2022.

The Fed has a tough job ahead in attempting to orchestrate a "soft landing," that is, controlling inflation without slowing the economy too much. The 2/10 spread, a gauge that indicates the difference between 2-year and 10-year Treasury yields, compressed to nearly zero. An inversion, in which shorter-term debt yields more than longer-term debt, has historically been considered a recession indicator, though there has been a lag time of 12 to 24 months before a recession occurs.

| BOND MARKETS | 3 Months | 1 Year | 3 Years* |
|---|---|---|---|
| **Taxable Bonds** | | | |
| Aggregate | -5.9% | -4.2% | 1.7% |
| Intermediate Govt./Credit | -4.5% | -4.1% | 1.5% |
| U.S. Government | -5.5% | -3.7% | 1.4% |
| U.S. Credit | -7.4% | -4.2% | 2.8% |
| High-Yield Bonds | -4.8% | -0.7% | 4.6% |
| **Tax-Free Bonds** | | | |
| 3-Year Municipal | -3.6% | -3.3% | 0.7% |
| 5-Year Municipal | -5.1% | -4.5% | 0.8% |
| 10-Year Municipal | -6.2% | -4.8% | 1.4% |

*Source: Bloomberg.*
*The bond indexes above are produced by Bloomberg.*
*Returns include the reinvestment of interest and dividends.*
**Returns are annualized.*

*To receive this Quarterly Investment Update by email, request our composite performance history, or request descriptions of the indexes and other information included in this report, please contact us at investmentnewsletters@perkinscoie.com .*

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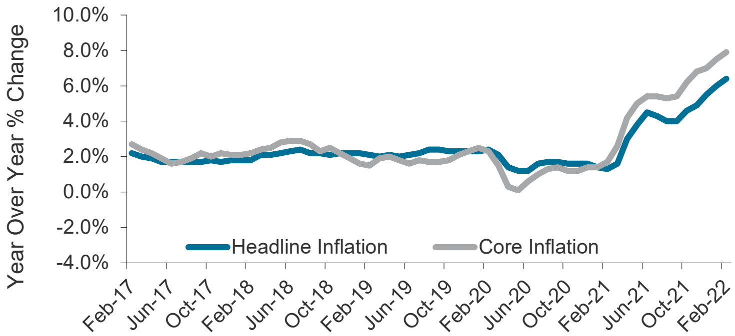
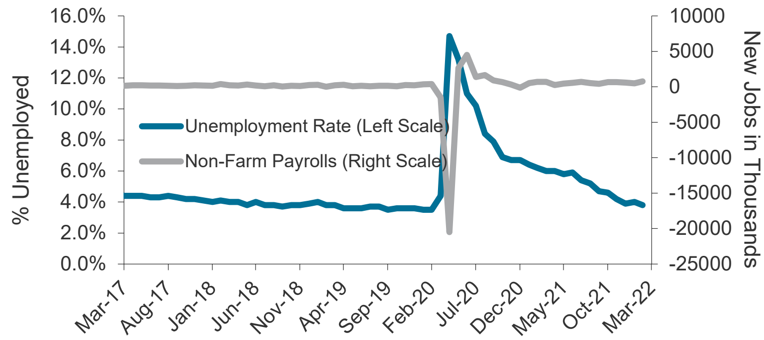
## WORTH KNOWING®

Inflation (CPI)




Employment




## Economic Commentary

2022 began against a complex macroeconomic and geopolitical landscape. While many parts of the economy remained strong, challenges persisted, including disruptions caused by continued COVID-19 outbreaks, ongoing supply and demand imbalances, and the Russian invasion of Ukraine.

The labor market was perhaps the single strongest indicator in the U.S. economy. Unemployment fell to 3.6%, below what the Fed would consider "maximum" employment, while the economy continued adding jobs - 455,000 in March, according to ADP payroll data. By quarter end, the U.S. Bureau of Labor Statistics reported that 11.3 million openings remained unfilled.

The robust labor market, wage growth of 5.6%, and corollary strong growth in the economy contributed to persistent inflation that dominated economic headlines. Inflation remained elevated at 7.9% and the Fed began raising interest rates.

With prices outpacing incomes, we began to see the erosion of some economic indicators. Consumer sentiment fell to 59.4 from a pre-pandemic high of 101. Durable goods, a pandemic-era stalwart of strength, began to slip from persistently high levels and were down 2.2% in February. Housing took a hit as well, feeling the impact of higher mortgage rates and incredibly high home prices. Mortgage applications were down 6.8% in March, pending home sales fell 5.4%, and house prices continued their meteoric rise, up 19.1% since last January.

The invasion of Ukraine exacerbated an already tight energy market, particularly for Europe. Food, too, is likely to see higher prices, since Ukraine supplies much of the world's calories in the form of wheat, corn, and sunflower oil.

## Key Economic Releases

| EMPLOYMENT | As of | Expected | Actual | Prior |
|---|---|---|---|---|
| Unit Labor Costs (4Q) | MAR | 0.3% | 0.9% | 9.3% |
| Unemployment Rate | MAR | 3.7% | 3.6% | 3.8% |
| Average Hourly Earnings (YoY) | MAR | 5.5% | 5.6% | 5.2% |
| Change in Manufact. Payrolls | MAR | 32K | 38K | 38K |
| Change in Non-Farm Payrolls | MAR | 490K | 431K | 750K |

| INFLATION (year over year) | As of | Expected | Actual | Prior |
|---|---|---|---|---|
| Consumer Price Index | FEB | 7.9% | 7.9% | 7.5% |
| CPI Ex Food & Energy | FEB | 6.4% | 6.4% | 6.0% |
| Producer Price Index | FEB | -- | 13.8% | 12.5% |
| PPI Ex Food & Energy | FEB | -- | 7.7% | 7.0% |

| HOME PRICES (year over year) | As of | Expected | Actual | Prior |
|---|---|---|---|---|
| S&P/Case Shiller Top 20 Mkts. | JAN | 18.6% | 19.1% | 18.6% |

| MANUFACTURING ACTIVITY | As of | Expected | Actual | Prior |
|---|---|---|---|---|
| Capacity Utilization | FEB | 77.9% | 77.6% | 77.3% |
| Leading Indicators | FEB | 0.3% | 0.3% | -0.5% |
| GDP Annualized (4Q) | MAR | 7.0% | 6.9% | 2.3% |

| PRODUCTIVITY | As of | Expected | Actual | Prior |
|---|---|---|---|---|
| Non-Farm Productivity (4Q) | MAR | 6.7% | 6.6% | -5.0% |
| Industrial Production | FEB | 0.5% | 0.5% | 1.4% |

*Source: Bloomberg.*

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