INVESTMENT STRATEGY UPDATE

MARKET REPORT
QUARTER 1 • 2022

ASCENTIAL WEALTH ADVISORS

INFLATION AND GEOPOLITICAL CONCERNS PRESSURE MARKETS

Financial markets were strained in the first quarter of 2022, posting negative returns across the board. At the beginning of the year, high inflation was the primary concern causing both bonds and stocks to decline. Russia's invasion of Ukraine in February added another layer of uncertainty, driving many of the major indices into correction territory (a greater than 10% decline). While equity markets were able to recover significantly from their lows, all of the broad equity indices in the US and overseas closed the quarter down.

Energy and commodities were the only sectors to benefit from the circumstances with positive returns, an unsurprising result given their correlation to inflation. Value stocks in general outperformed growth, with the prospects of higher interest rates and a general "risk-off" attitude driving the Nasdaq down to bear market levels (a greater than 20% decline) before it recovered somewhat to close down -9.1% for the quarter.

Although the economic backdrop in the US remains strong, the question remains whether the economy can withstand higher prices and higher interest rates. Sanctions imposed on Russia for the war in Ukraine have pushed energy prices higher, adding to already high inflation and market volatility. While the US has some options for increasing domestic energy production, Europe does not have the same flexibility and could be more at risk to recession as a result of higher energy costs.

Bonds did not offer any relief for investors, with the bond index experiencing a decline similar to equities for the quarter. In response to sustained inflation, the Federal Reserve implemented the first of several expected rate hikes for the year. Bond prices fell and yields rose in response to this and the expectations for more aggressive Fed action throughout the remainder of the year. The 10-year US Treasury yield rose from 1.5% at the end of 2021 to 2.3% at the end of March.

Index	*2022 (through 3/31)*
S&P 500	-4.6
DJIA	-4.1
EAFE (Int'l)	-5.9
BC Ttl Bond	-5.9

Dow Jones Relative Risk Benchmarks	
Conservative	-5.4
Moderate	-5.1
Aggressive	-5.1

IMPACT OF PAST RATE HIKES

HOW HAVE MARKETS RESPONDED TO PREVIOUS FED RATE HIKES?

Impact of Past 6 Rate Hike Cycles (1983-Present)
Cycle average 9 rate hikes, 18 months long

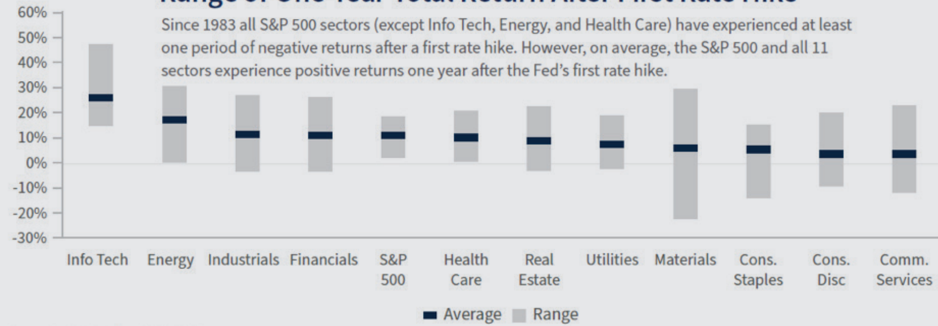
Average Yield Change
- **Fed Funds Rate:** +2.9%
- **2-year US Treasury:** +2.28%
- **10-Year US Treasury:** +1.17%

S&P 500 Return: +5.8%
U.S. Dollar: +0.6%

Source: *JP Morgan Guide To Markets, March 31, 2022*

► *See graph on reverse side.*

SOURCE:
Raymond James- Investment Strategy Quarterly, April 2022



OUR VIEW

FIXED INCOME — Bond returns are likely to continue to struggle as interest rates rise throughout the year. Although some of the expected rate increases are already reflected in current bond prices, if the Federal Reserve moves more aggressively there could be more downside risk. The yield curve has flattened, with short-term rates about the same as long-term rates, and we are in favor of keeping bond maturities shorter when there is relatively little reward for longer bonds and potentially more downside. We continue to prefer slightly lower traditional fixed income exposure, and a combination of bonds and alternative strategies to help manage both equity and interest rate risks.

US EQUITIES — The S&P 500 was priced at 21.2 times earnings at the beginning of the year and closed the first quarter at 19.5 times earnings Stocks look cheaper today, and with a backdrop in the US of strong employment, rising wages, and projections for healthy corporate profits we feel they are a good choice relative to other asset classes. Additionally, an inflationary environment typically favors equities, particularly value companies as we have seen already this year. However, given the recent decline in prices of large US growth stocks, we feel they are also looking more attractive. At this point we are in favor of a relatively equal weighting between growth and value, along with a slight overweight to large US companies in general.

INTERNATIONAL EQUITIES — Foreign stocks remain cheaper than US stocks, but are also facing more insecurity at this time. Europe is more dependent on foreign energy than the US, which could translate into slower growth if prices remain elevated or experience another shock. With the ongoing conflict in Ukraine fueling economic uncertainty, we prefer a lower allocation to foreign developed equity and more active management to help navigate the volatility. Emerging markets have slightly different challenges, with China's economy slowing due to self-imposed regulatory restrictions and an ongoing Zero-Covid policy. Many emerging economies are very natural resource based, and could benefit from higher commodity prices, but are also facing higher borrowing costs as global interest rates rise. As a result, we are neutral on emerging markets for the near term.

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