

IPI Market Update

FOR THE WEEK OF MARCH 11TH, 2022

Last week was pretty schizophrenic, where a highly volatile equity market churned alongside a surge higher in interest rates, a strong USD, and weaker commodity markets (with the exception of spot nickel +44%). For the week, U.S. equity markets were down nearly 3% while developed international markets, particularly Europe (+4.5%), held up better. U.S. Treasuries took a notable step down as interest rates moved sharply higher across the curve while broad based weakness across the commodity spectrum was paired with a strong USD.

Market Anecdotes

- In what Bespoke coined the ‘immaculate correction’ we’ve seen earnings estimates rising with stock prices (and multiples) falling, reflecting a relatively constructive forward runway translating to P/E multiple compression given the Fed tightening cycle and prevailing geopolitical risks.
- Given the 12.5% drop in the S&P 500, BCA’s U.S. equity valuation indicator now shows the market is no longer overvalued or technically overbought, pointing out favorable macro conditions, flush U.S. consumers, and strong manufacturing industries as the backdrop.
- The rapid surge in volatility has resulted in investor sentiment measures swinging wildly of late with AAI bullish sentiment falling sharply to under 25% and bearish sentiment rising to 45.8%.
- It’s times of elevated volatility like these when Wall Street publishing firms dust off the chart reminding investors of the perils of market timing as illustrated last week through BofA’s decade by decade illustration of returns missing the 10 best and 10 worst trading days.
- While direct economic effects of the Russia-Ukraine war are limited and not expected to drive global economies into recession, the indirect effects on the commodity channel and financial conditions pose tangible short-term risks.
- Inflation continues to dominate the headlines with the U.S. in the rare position of having the highest inflation in the developed world and no immediate end to broad based price surge in sight across energy, grains, and metals.
- Agricultural product supply shocks and second -round effects on livestock, dairy, and cooking oils have sent the FAO Food Price Index to a record high with more gains expected in March.
- While crude oil reversed last week, consumers certainly didn’t notice with gasoline prices rising to a record high of \$4.33 according to AAA (data to 2004). That said, the world is not nearly as energy addicted as it was years ago.
- Russian Deputy Prime Minister Alexander Novak on Monday suggesting Russia may halt its natural gas exports to Germany (Nord Stream 1 pipe) highlights the threat to Europe but is unlikely due to the importance of those revenues and lack of infrastructure to sell elsewhere.
- Something lost in the overwhelming narrative of Russia-Ukraine is that the global supply chain is continuing to heal as expected. Ship congestion in LA/Long Beach and ISM supplier delivery times are clearly exhibiting that trend.
- The ECB meeting Thursday came with a hawkish surprise consisting of a faster than expected exit from its APP bond buying program but left rates unchanged as expected.
- A breakdown and suspension in the U.S.-Iranian talks increases risks in the Middle East of militant regional proxies, military flexing, and added risk to global energy supply.

Economic Release Highlights

- February headline and core CPI registered MoM 0.8% and 0.5% and YoY of 7.9% and 6.4% respectively.
- The February NFIB Small Business Optimism Index reading of 95.7 came in below consensus (97.1) and the low-end range of estimates (96.4 to 97.5).
- January's JOLTS revealed 11.263mm job openings, well in excess of the consensus of 10.9mm.
- UofM Consumer Sentiment survey reading of 59.7 for March was a 3.1-point drop and below consensus expectation of 61.7.
- The Sentix Economic Index collapsed 23.6 points in March to a 16-month low, reflecting Eurozone anxiety surrounding the Ukraine conflict.

The Numbers

Equity	Level	1 Wk	1 Mo	3 Mo	YTD	1 Yr	Commodities	Current	12/31/21	9/30/21	6/30/21
Dow Jones	32944	(1.91)	(4.86)	(7.99)	(8.93)	3.34	Oil (WTI)	119.26	75.33	75.22	73.52
NASDAQ	12844	(3.51)	(6.80)	(17.69)	(17.79)	(3.51)	Gold	1945.30	1945.30	1742.80	1763.20
S&P 500	4204	(2.84)	(4.71)	(10.45)	(11.53)	8.24					
Russell 1000 Growth		(3.59)	(6.72)	(17.72)	(17.89)	4.23					
Russell 1000 Value		(2.22)	(3.30)	(3.28)	(5.56)	7.00					
Russell 2000		(1.03)	(2.38)	(10.24)	(11.66)	(14.47)					
Russell 3000		(2.79)	(4.87)	(10.96)	(12.06)	4.08					
MSCI EAFE		0.57	(10.01)	(10.31)	(12.15)	(5.37)					
MSCI Emg Mkts		(5.07)	(12.33)	(11.93)	(11.66)	(18.05)					
Fixed Income	ΔYield	1 Wk	1 Mo	3 Mo	YTD	1 Yr	Treasury Rates	Current	12/31/21	9/30/21	6/30/21
US Aggregate	1.81	0.03	0.00	0.03	0.04	(0.32)	3 Month	0.40	0.05	0.04	0.05
High Yield	4.58	0.09	0.10	0.25	0.31	(0.42)	2 Year	1.75	0.73	0.28	0.25
Municipal	1.75	0.02	0.00	0.01	0.04	(0.15)	5 Year	1.96	1.27	0.98	0.87
							10 Year	2.00	1.52	1.52	1.45
							30 Year	2.36	1.93	2.08	2.06



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