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Monthly Market Pulse

April 2022

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Key Observations:

- *Investors repriced securities (lower) throughout the month amid increasingly hawkish rhetoric from the Federal Reserve (Fed).*
- *Both stocks and bonds registered steep losses in the face of rising interest rates. The Nasdaq Composite entered a bear market, while the Bloomberg U.S. Aggregate posted one of its largest monthly declines on record.*
- *Treasury yields rose across the maturity spectrum. The benchmark 10-year yield spiked 56 basis points (0.56%).*

There was no reprieve in April for stocks or bonds, with bonds arguably the bigger story. Given the dynamics of fixed income securities — prices move opposite to interest rates — they didn't fare well in the face of sharply rising Treasury yields. In fact, the Bloomberg U.S. Aggregate Index posted its third worst monthly return on record (-3.79%), and the prior month also made the top 10 (Figure 1). And while the 56-basis point (0.56%) absolute increase in the benchmark 10-year Treasury yield may not seem too significant when compared to other months in which the Index fell markedly, the move came off the second lowest starting yield in the list, making it one of the largest relative moves.

Figure 1

Dates	Total Return	Starting Yield	Monthly Change in 10-Year Treasury Yield (basis points)	Monthly Change in 10-Year Treasury Yield (relative %)
Oct 1979	-6.08	9.44	128	14%
Feb 1980	-5.92	11.13	159	14%
Apr 2022	**-3.79**	**2.32**	**56**	**24%**
Dec 1981	-3.74	13.13	85	6%
Aug 1980	-3.58	10.76	79	7%
Apr 1981	-3.57	13.13	98	7%
Jul 2003	-3.36	3.54	95	27%
May 1984	-3.12	12.82	109	9%
Jan 1980	-3.05	10.33	80	8%
Mar 2022	**-2.78**	**1.84**	**49**	**27%**

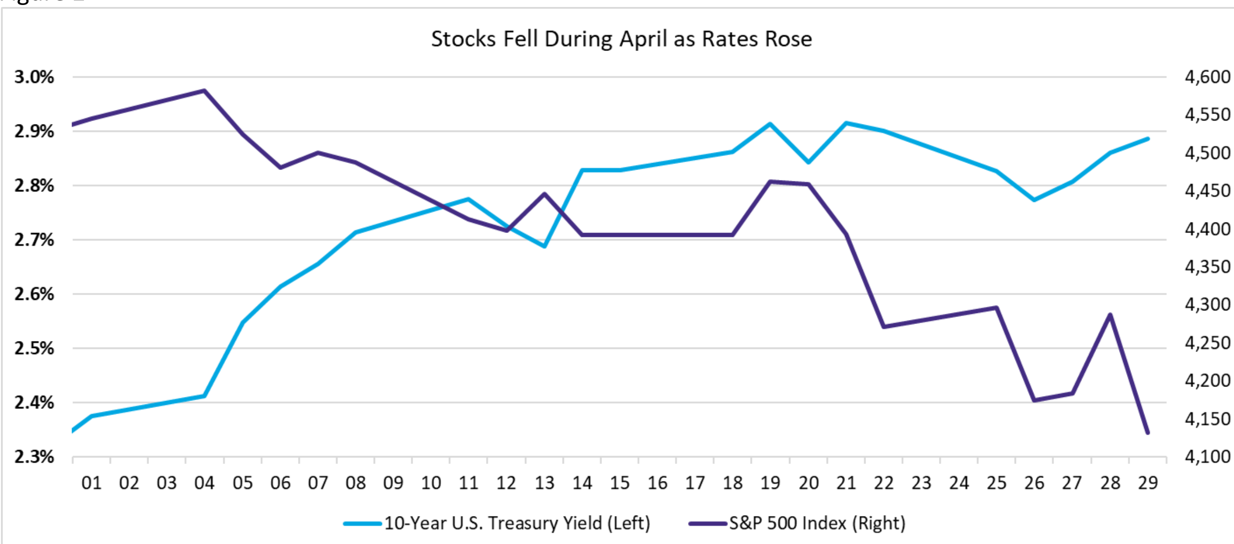
Source: FactSet, Choreo

[1] *Hawk* and *Dove* refer to the birds' respective flight patterns as it relates to Federal Reserve governors' views on inflation. Hawks emphasize fighting inflation over employment and are more apt to tighten monetary policy in the face of rising inflation at the risk of lower economic growth (hawks swoop down). Doves, on the other hand, are more comfortable with higher inflation so long as it is accompanied by growth (doves fly up).

[2] Defined as a decline of 20% or more from the most recent high.

Equities also fell sharply. The S&P 500 Index returned -8.7%, while the more growth-oriented Nasdaq tumbled 13.3% on its way into bear market territory. The primary culprit was a sharp rise in interest rates as investors focused on the Fed's increasing sense of urgency to tamp down inflation that's been running at multi-decade highs. Higher interest rates have a direct impact on equity valuations, and it was on full display last month (Figure 2). Why? Treasury yields (the 10-year in particular) are often used as a discount rate to determine the present value of future cash flows (i.e., stock price), and the higher the discount rate the lower the present value of those cash flows.

Figure 2



Source: FactSet as of 4/30/2022

Corporate earnings were also on investors' radars as first quarter earnings season ramped up. A marked slowdown in year-over-year profit growth was expected largely due to the high bar set in 2021; however, as of month end, S&P 500 Index-level earnings were on track to increase more than 7% versus the same period last year. Arguably as important were comments from corporate executives about the impacts of rising costs on profitability and their business outlook over the balance of the year. Thus far, companies have generally been able to pass along cost increases to consumers and forward guidance has been optimistic, particularly in more service-oriented sectors tied to economic reopening theme such as travel, entertainment, and lodging.

Consumer spending data released late in the month registered a robust 1.1% increase amid strong demand for services, supporting companies' outlooks. However, enthusiasm was tempered by a 1.4% spike in the Employment Cost Index that reflected the need for firms to spend more on labor in the current environment. And with inflation still tracking significantly higher than wage growth, which was up 3.4%, households are drawing upon savings to fund the shortfall, a trend that can't continue indefinitely.

Overseas markets largely mirrored those in the U.S., albeit to a lesser extent. The MSCI EAFE Index was down -6.3%, while the MSCI Emerging Markets Index returned -5.6%. Like its U.S. counterpart, the European Central Bank assumed more aggressive rhetoric towards taming inflation, minutes from its March policy meeting showed. However, it has yet to implement monetary tightening. In Asia, China's zero tolerance policy regarding COVID infections led to widespread lockdowns amid outbreaks in major cities including Shanghai, further disrupting already-fragile supply chains.

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