QUARTERLY MARKET COMMENT
First Quarter 2022

ALEXANDER FINANCIAL PLANNING

There is no sugarcoating the news: the U.S. and global markets took a hit in the first three months of 2022. A bit of red ink on the performance statements is not something many have been accustomed to lately, other than the initial shock of Covid in the 1st quarter of 2020. Just about every investment declined 1st quarter this year, except for one bright spot, commodities. The S&P GSCI, a commodity benchmark, was up 29%, the best return since 1990. However, the positive return on commodities provided a very different experience for those filing up their tanks with the energy sector up 46.10%. U.S. large-cap stocks fared better than mid and small-cap stocks, but all were down as noted in the chart below. A value style of investing held up much better than growth, signaling the market's risk-off sentiment, with the S&P 500 Value Index down 0.16% vs. the S&P Growth Index down 8.59%. International stocks were also disappointing with developed countries experiencing -6.61% and emerging markets -7.47%. Aside from the stock market's poor performance, the bond market suffered its worst quarter in more than 40 years. On balance, the longer the maturity and the higher the quality, the greater the decline as noted in the chart below.

A trifecta of challenges converged in the first quarter: the Russian/Ukraine conflict; surging inflation; and the Fed's rate hike plan. The conflict and the progressive escalation of sanctions imposed on Russia have created a great deal of uncertainty and disruption in an already stretched supply chain worldwide. This has led to sharp price swings across the financial markets. Inflation has jumped to its highest level in four decades and there are now some sticky elements suggesting this is not just transitory. As a result, the Federal Reserve appears to be taking steps to act more aggressively than originally thought. They imposed the first rate increase of 0.25% in March with more to follow. Additionally, they have started quantitative tightening by removing $100 billion in cash from the system every month to pull inflation down. The fallout from the conflict along with the Fed's actions to address some of the inflation issues could threaten the economy's post-pandemic recovery.

Asset Index Category	1Q 2022 %	Year 2021 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	-4.95	26.89	13.91	12.39
S&P 400 Index-Mid-size Companies	-5.22	23.21	9.39	10.48
Russell 2000 Index-Sm Companies	-7.80	13.70	8.36	9.57
Natural Resource Funds	8.48	29.56	11.80	6.07
Gold	6.59	-4.28	8.09	0.70
US Real Estate Funds	-5.09	38.73	9.23	9.18
Global Real Estate Funds	-4.93	22.90	7.20	6.90
MSCI EAFE-Developed International	-6.61	8.78	4.00	3.45
MSCI EM Index-Emerging Markets	-7.47	-4.59	0.62	1.22
Barclays US Aggregate Bond Index	-5.93	-1.54	2.14	2.24
Long US Government Bond Index	-11.10	-6.80	1.06	0.81
Emerging Market Bond Index	-7.47	-4.89	0.62	1.22

The U.S. economy has been resilient since March of 2020. The stimulus from the U.S. Government has been turned off, the consumer's pent-up demand has been at full throttle, and businesses have been working overtime to meet demand amid historic labor shortages and broken supply chains. Inflation has provided an opportunity of sorts to raise wages and the prices of goods sold. Up to this point, consumers have not slowed their spending, but this may be changing. Indicators suggest we are in the mid-phase of the business cycle where growth is positive. There are some early warning signs suggesting we could be moving into the late-cycle phase earlier than anticipated given the trifecta noted above. One indicator flashing caution is the spread between the 10-year and 2-year U.S. Treasury notes which have inverted (10-year note rates are lower than the 2-year note rates). Historically this has been an early indicator of a recession in the future. Another indicator is the transportation industry, and recent data has shown some signs of lagging. This may be temporary due to other forces, but it is one to watch. As we mentioned last quarter, the markets are a leading indicator, typically looking out six months or more. It is already pricing in what is known.

Our portfolio positioning will remain broadly diversified with an emphasis on short-term duration in fixed income as we navigate these challenging times. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us to help guide you through your financial life.

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