1Q22 Market Commentary

Into the unknown

The last two years have been confusing and frustrating on many fronts. We can add another adjective to that list after Russia invaded Ukraine in February—frightening. While we focus on the economy and stock market movements each quarter in this piece, in no way do we want to minimize the horrors of war, which we are all seeing up close on a daily basis. The war is an unnecessary tragedy and economic impact is a distant second in importance right now. However, there are and will continue to be real economic consequences to contend with.

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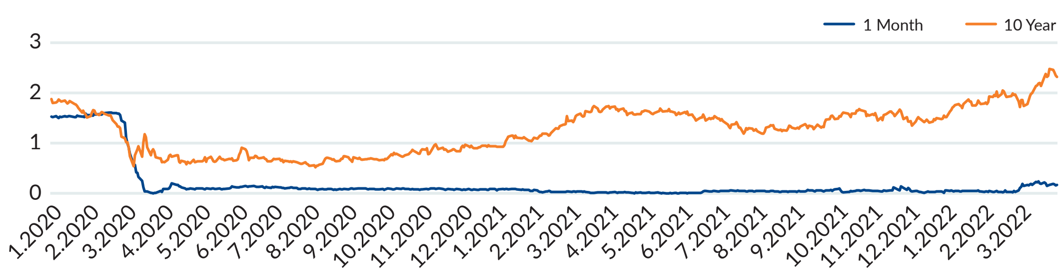
What happens next is anyone's guess. We are facing more uncertainty than we have in a very long time. This is leading to spikes in stock market volatility and confusion over the "correct" course of action. Any predictions around how the war might end and what it means for the global economy and stock market should be taken with appropriately sized grains of salt.

Inflation and bonds

What is clear, however, is that the Federal Reserve will continue to raise interest rates this year and most likely will continue to do so in 2023. This means short-term interest rates are going up, likely reaching 2% before the end of the year. This may cause the 10-year Treasury rate to breach 3%, a level not seen since late 2018. The 10-year interest rate is important as it is the rate off of which many financial transactions are based, including mortgages, auto loans and credit card rates. Predicting the movement of the yield curve is challenging, but the Fed will clearly telegraph all rate increases as they do not want to induce further volatility by making ambiguous statements or unexpected moves. The chart below shows the short term (1 month) and 10-Year Treasury rates between 2020 and March 2022.

CHART 1: **TREASURY BOND RATES**



Source: US Department of the Treasury