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March 2022: Market Review

Global equities experienced positive returns in March, following two negative months to start the year. However, the rebound was pocketed with volatile daily moves as investors reacted to the evolving conflict between Russia and Ukraine, concerns over inflation and central banks' ability to engineer a soft landing amidst tightening monetary policy. A potential end to the war in Ukraine remains clouded in uncertainty as several cease-fire talks have failed to reach an agreement. A large coalition of Western economic powers imposed a plethora of new sanctions against Russia to cripple its economy and limit its ability to finance the invasion. European reliance on Russian oil and gas has dampened the effectiveness of the sanctions as countries are reluctant to sacrifice their own economic prosperity as they continue to heal after two years of pandemic related shutdowns. Global commodity prices have spiked since the start of the invasion, exacerbating the existing supply-constrained inflationary pressures. The U.S. Federal Reserve began its tightening campaign, raising short-term interest rates by 25 basis points at the March meeting, with several more rate hikes expected in the coming months. The S&P 500 Index and the Dow Jones Industrial Average rose +3.7% and +2.5%, respectively, during the month.

In domestic markets, large cap growth stocks outperformed value and small and mid-cap stocks trailed larger cap stocks for the month. The Russell 1000 growth increased +3.9% while the Russel 1000 Value Index rose +2.8%. Within the mid and small capitalization range, value style stocks outperformed growth. The Russell Midcap Value Index increased +3.0% versus +1.6% for the Russell Midcap Growth Index. The Russell 2000 Value Index rose +2.0% compared to the Russell 2000 Growth Index which increased +0.5%. WTI crude oil briefly rose above $130 per barrel, settling around $102 versus $88 at the beginning of the month, a +13.6% increase since the beginning of the month and a +33.3% increase since the beginning of the year. The value of gold rose to $1,949 an ounce, up from $1,899 at the beginning of the month.

Developed international indices increased this month despite the significant risks the Russian invasion has posed to their economies. The MSCI EAFE Index increased +0.6%, while the MSCI ACWI ex-U.S. Index (which includes emerging markets) gained +0.2%. The MSCI Emerging Market Index fell -2.3% in March, driven in part by an exodus of foreign investors in Chinese stocks. Investors fled the Chinese markets due to the geopolitical risks related to the financial isolation of its economic ally in Russia. Additionally, other emerging market economies have responded to increased price pressures by raising interest rates at a greater amplitude relative to developed markets.

U.S. fixed income markets declined during the month in reaction to the Federal Reserve's decision to raise the upper limit on the federal funds rate to 50 basis points from 25 basis points. This widely expected tighter monetary policy shift was initiated as the Fed attempts to achieve its longer-term goal of 2% inflation and to maximize employment. Further increases are expected if inflation continues to run high. The headline inflation rate in the U.S. accelerated to 7.9% in February on a year-over-year basis. The yield on the 10-year Treasury ended the month at 2.32%, a sharp increase from last month's close of 1.83%, and the intermediate range of the yield curve continued to flatten, a warning sign of tougher economic conditions on the horizon. The Bloomberg U.S. Aggregate Bond Index declined -2.8% in March and the Bloomberg +20 Year Index declined -5.5%. The Bloomberg Corporate High Yield Bond Index depreciated -0.9%.

Moscow's invasion of Ukraine has dominated headlines for the second straight month. Additional sanctions by NATO countries are anticipated if the conflict continues. While the Russian energy sector avoided some of these measures, many E.U. countries have released plans to lessen their reliance on Russian supplied oil and gas in the future. In the U.S., President Biden announced an unprecedented release of up to 180 million barrels from the strategic petroleum reserve to combat near-record high fuel prices. The Federal Reserve's move to raise rates and shrink its balance sheet is making near-term economic forecasts more difficult. The U.S. economy continues to show resilience with unemployment falling to 3.6% in March, with increased participation and higher wages. Looking forward, with the Ukraine conflict ongoing and inflation still running high, investors should brace for continued security price volatility over the short-term.

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Disclosures

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