Fourth Street Performance Partners
Independent Investment Consultants

April 2022: Market Review

Equity markets suffered losses in April as soaring interest rates, continued conflict between Russia and Ukraine, and lockdowns stemming from the renewed coronavirus outbreak in China negatively impacted global equities. In the United States, the advance estimate of first quarter real GDP growth in the United States showed a contraction of -1.4%, led by a higher than expected U.S. trade deficit. However, consumers were resilient in the first quarter, despite higher prices, as consumer spending rose at a 2.7% annualized rate, an acceleration relative to last quarter. S&P 500 earnings have been strong so far, with 4 out of 5 companies reporting positive EPS surprises (55% of companies reporting earnings so far). The most significant exceptions have been Amazon, which posted its first quarterly loss since 2015, and Netflix as they lost 200,000 subscribers in the first quarter. In April, investors were discouraged by the rise in interest rates, particularly the impact higher interest rates have on the valuations of longer duration, growth-style equities. As such, technology stocks suffered the steepest losses during the month. The tech-heavy NASDAQ Composite Index plummeted -13.2% while the S&P 500 Index declined -8.7% during the month. The Dow Jones Industrial Average fell a more modest -4.8%.

In domestic markets, value stocks outpaced growth across all capitalization sizes, while larger cap companies outpaced small cap stocks for the month. The Russell 1000 Value Index was down -5.6%, while the Russell 1000 Growth Index dropped -12.1%. The Russell Midcap Value Index fell -5.9% versus an -11.3% decline for the Russell Midcap Growth Index. The Russell 2000 Value Index declined -7.8%, while the Russell 2000 Growth Index fell -12.3%. WTI crude oil had a calmer month as the price per barrel ended the month at $105, up only $3 from the previous month. However, oil prices have appreciated considerably since the start of the year (+40% year-to-date). Gold declined to $1,909 an ounce during the month, down from $1,949 at the end of March.

Developed international indices also declined in April amid global weakness and the escalation of the conflict between Russia and the rest of Europe. The MSCI EAFE Index fell -6.5% while the MSCI ACWI ex-U.S. Index (which includes emerging markets) declined -6.3%. The MSCI Emerging Market Index (-5.6%) outpaced their developed market peers due to broad outperformance across the board, with the exception of Latin American stocks, which declined in April after a strong start to the year. Developing market countries have benefitted from higher commodity prices and a lower exposure to Russian imports and exports compared to developed market peers. Chinese equities declined in April (-4.1%), but still managed to outpace most developed markets despite concerns about the current coronavirus outbreak.

U.S. fixed income markets had another historically poor month as yields continued to climb. The Federal Reserve's primary concern is now clearly inflation, which rose to 8.5% year-over-year in March. In response, the Federal Reserve indicated their plan to hike interest rates at a more aggressive pace and begin to reduce their balance sheet size. Investors are now pricing in a 50-basis point rate hike at the Fed's meeting in May, followed by a 75-basis point increase in June. The yield on the 10-year Treasury ended the month at 2.89%, a significant increase from last month's close of 2.32%. The Bloomberg U.S. Aggregate Bond Index declined -3.8% in April and the Bloomberg +20 Year Index tumbled -9.4%. The Bloomberg Corporate High Yield Bond Index fell by -3.6%.

As capital markets struggle to find consensus on the terminal rate of interest for this Fed tightening cycle, market volatility and uncertainty abound. The inflation report in early May will be heavily scrutinized for clues that might influence the Fed's terminal rate. Additionally, the armed conflict in Ukraine and widescale economic lockdowns in China have further stressed global supply chains. Despite the many short-term headwinds, the U.S. economy continues to show resilience with a rise in consumer and business spending over the first quarter and the economy adding 431,000 jobs in March. While the first quarter saw a contraction of real GDP in the U.S., a recession (two consecutive quarters of negative real GDP growth) is not the expected outcome as most economists anticipate fairly robust real GDP growth (near 3%) for the second quarter.

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