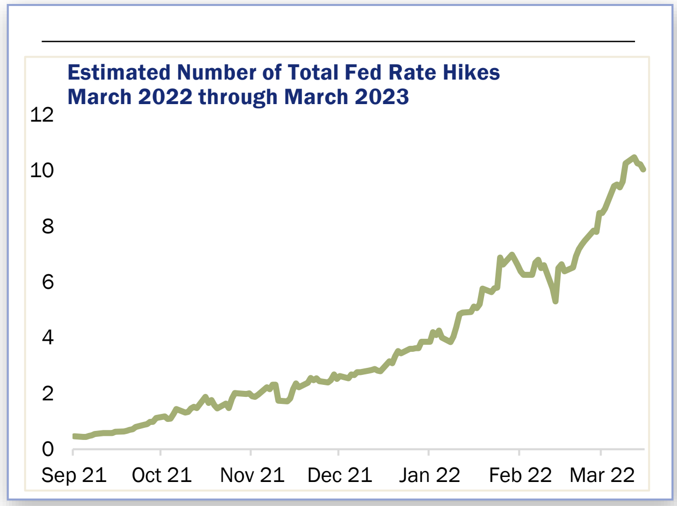
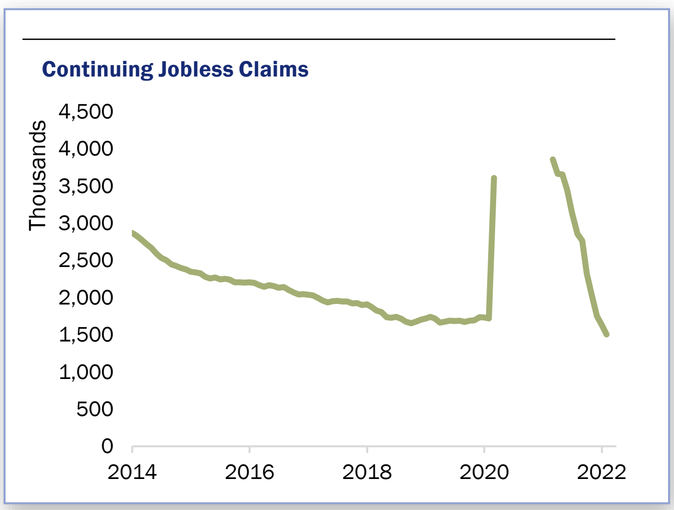
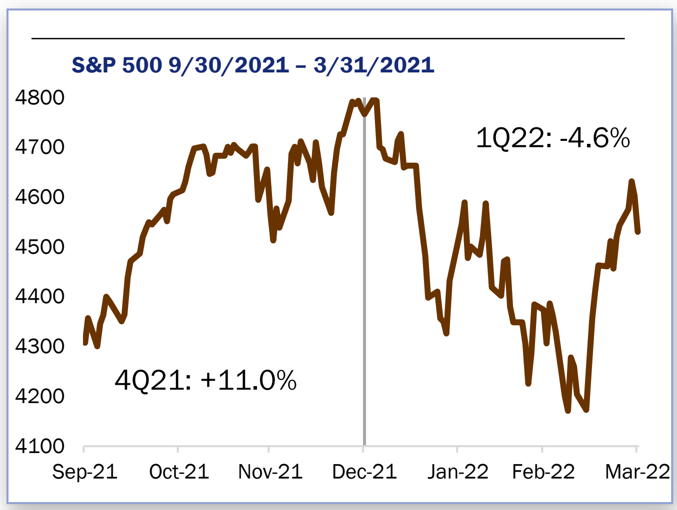
MARKET COMMENTARY: 2022 Spring Outlook



Inflation expectations continue to trend higher, and we fear some inflationary pressures are becoming embedded, which could result in a long-term increase in consumer expectations. Higher inflation will likely benefit the earnings of many companies, but an aggressive Fed is also likely to push down the multiple investors are willing to pay for future earnings, offsetting earnings increases.

Investors are expecting the equivalent of ten quarter-point rate hikes and a Fed Funds rate of 2.5% by this time next year. This drastic change in policy is warranted and there is widespread agreement that the Fed must tighten monetary policy to combat inflation. Higher rates today are preferred to higher inflation expectations tomorrow. This has resulted in the **fastest increase in Treasury rates in a generation.**





The probability of a U.S. recession within the next 18 months has increased but a recession is not inevitable. The U.S. jobs market is very strong, and historically U.S. recessions include labor market weakness. The recent yield curve inversion[1] is an indicator of stress and signals the likelihood for a "policy error," but it is not a fool-proof recession indicator .

Markets took increasing uncertainties in stride and continue to trade above levels set six months ago. The S&P 500 declined only 4.6% during the quarter despite a war in Europe, surging commodity prices, and a Federal Reserve forecasting significantly higher rates in the face of inflationary pressures. **We continue to believe that the Federal Open Market Committee's (FOMC) actions will prove more consequential to markets than geopolitical events.**

[1]As defined as the 2-year Treasury yielding more than the 10-year. Past recessions have been accompanied by an inversion, but not all inversions lead to a recession.

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