CLIENT BRIEFING

QUARTERLY ECONOMIC COMMENTARY | Q1 | 2022

The Russian war against Ukraine is a seminal event that has worsened the shortages and inflation pressures already felt as a result of the COVID-19 pandemic. Even if peace breaks out tomorrow, Russia will be isolated economically and dependent on China.

In March, Jerome Powell, chair of the Federal Reserve (Fed) announced a quarter point increase in the fed funds rate. This is the first tightening of interest rates after years of incredibly accommodative monetary policy. The Fed and other central banks have no choice but to transition from supporting economic growth and expansive monetary policies to fighting inflation with high interest rates and quantitative tightening.

Stock markets rebounded surprisingly sharply during the closing weeks of the quarter, highlighting the resiliency and adaptability of publicly-traded companies. Despite this, investors should continue to expect more volatility and mixed equity performance as a result of war uncertainty, stubbornly high inflation and tighter monetary policies.

For Q1, most stock indexes saw negative returns. The S&P 500 lost 5.3% with large value stocks faring much better than growth. Developed market international stocks dropped 5.1% while emerging markets fell 5.90%. Natural Resources was one of the only asset classes that posted a positive return for the first quarter, up 38%, fueled by higher energy prices.

Most fixed income assets retreated as well in Q1. When inflation is higher than the Fed's target, the reaction is to raise rates. When rates rise, bond prices fall. In order to help combat this, we continue to recommend fixed income allocations that are sensitive to increases in interest rates – in other words, we have shortened the duration on our fixed income portfolios and incorporated government inflationary bonds, where appropriate. In general, investment grade corporate bonds fell 5.9% and government bonds fell 5.5% while inflationary bonds (TIPS) gave up only 2.4%.

From the years-long COVID pandemic and supply-chain shocks to inflation and war, the world is an unpredictive place where events both abroad and home can sometimes have dramatic effects on financial markets. Unsettled times further reinforce our belief in diversification as a sound investment strategy.

Miller Wealth Advisors

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Sources:
- *Barron's -Quarterly Review & Outlook, 3/31/22*
- *SEI -The New World (Dis)Order , 4/4/22*
- *Valmark –TOPS Quarterly Update Q1 2022, 4/12/22*

Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.

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