In this month's recap: Stocks rallied as the Fed provided greater clarity on monetary policy, and investors became more upbeat about the economic outlook.

Monthly Economic Update

Presented by Ivana Lotoshynski, CFP®, April 2022

U.S. Markets

Greater clarity on monetary policy and improved investor sentiment on the economic outlook propelled stocks to their first monthly gain of the year.

The Standard & Poor's 500 Index led, gaining 3.58 percent. The Dow Jones Industrial Average added 2.32 percent, and the Nasdaq Composite picked up 3.41 percent.[1]

Rough Start, Strong Rebound

The month started out with the same anxieties that dragged the stock market lower in January and February: rising bond yields, slowing economic growth, elevated inflation, and Ukraine. The escalation of hostilities in Ukraine, along with a continuing stream of Western economic sanctions, heightened concerns over the war's impact on inflationary pressures and the global economy, sending stocks lower in the early part of March.

Fed Raises Rates

A combination of strong economic data and the announcement by the Fed that it was raising rates by a quarter of a percentage point set the stage for a strong rebound in the second half of the month.

While stocks wobbled immediately following the Federal Open Market Committee's news, investors subsequently reinterpreted the Fed's aggressive steps as a serious commitment to taming inflation and a reassuring statement about the current health of the economy to withstand higher interest rates.[2]

Yield Curve Concern

Investors' attention turned to the bond market as the month progressed. In early March, the spread between the 2-year and 10-year Treasury yields was 85 basis points. By March 30, that spread had narrowed, and some parts of the bond yield curve had inverted.[3,4]

Some view a yield curve inversion as a signal that the economy may be headed toward a recession. While yield curve inversions are not flawless predictors of future economic activity, its action was a concern and is likely to remain so in the months ahead.

Sector Scorecard

Every industry sector enjoyed a month of positive performance, with gains in Communications Services (+2.43 percent), Consumer Discretionary (+6.31 percent), Consumer Staples (+1.56 percent), Energy (+9.79 percent), Financials (+1.82 percent), Health Care (+6.45 percent), Industrials (+4.71 percent), Materials (+7.15 percent), Real Estate (+8.41 percent), Technology (+4.71 percent), and Utilities (+9.73 percent).[5]

What Investors May Be Talking About in April

The initial estimate of the first quarter's Gross Domestic Product will be released on April 28.

It should provide investors with insight into how the economy weathered the stresses of a wave of Omicron infections early in the first quarter and the repercussions of Russia's invasion of Ukraine, which started in late February.

At the same time it releases the GDP report, the Bureau of Economic Analysis also will report the Personal Consumption Expenditures Index (PCEI).

The PCEI is one of the benchmarks watched by the Federal Reserve to assess inflationary trends. The Federal Open Market Committee (FOMC) meets in early May so the index may play an oversized role in any decision on interest rates.

TIP OF THE MONTH

If you are presently retiring, moving, or divorcing, try tracking your expenses for the next few weeks or months. Significant life changes like these may mean revisions to your budget.

World Markets

Overseas markets rebounded in March, with the MSCI-EAFE Index gaining 1.15 percent.[6]

Major European markets were mixed, with losses in Italy (-1.55 percent), Spain (-0.40 percent) and Germany (-0.32 percent). The U.K. picked up 0.77 percent and France edged higher.[7]

Stocks in the Pacific Rim markets were led by a surge in Australia (+6.39 percent). China's Hang Seng index lost 3.15 percent while Japan's Nikkei added 4.88 percent.[8]

Indicators

Gross Domestic Product: *The final read of fourth-quarter GDP annualized growth rate was 6.9 percent, revised down slightly from its previous estimate of 7.0 percent.*[9]

Employment: *Employers added 678,000 jobs in February. The unemployment rate dipped to 3.8 percent, while workers' wages rose 5.1 percent from a year ago. The labor force participation rate ticked up to 62.3 percent from 62.2 percent.*[10]

Retail Sales: *Retail sales rose 0.3 percent, a deceleration from January's increase of 4.9 percent.*[11]

Industrial Production: *Output from the nation's factories, mines, and utilities increased by 0.5 percent, led by gains in the manufacturing sector.*[12]

Housing: *Housing starts rose 6.8 percent from January levels and were 22.0 percent higher versus February 2021.*[13]

Existing home sales fell 7.2 percent as mortgage rates rose, and the median sales price jumped 15 percent from February 2021.[14]

New home sales slipped 2.0 percent from January's and came in 6.2 percent lower year-over-year.[15]

Consumer Price Index: *Consumer prices rose 0.8 percent in February, pushing the year-over-year inflation rate to 7.9 percent, the highest level since January 1982. Excluding the more volatile food and energy prices, the 12-month increase was 6.4 percent, up from 6.0 percent a month earlier.*[16]

Durable Goods Orders: *Orders of goods designed to last three years or longer were down 2.2 percent from a month earlier.*[17]

QUOTE OF THE MONTH

"If a window of opportunity appears, don't pull down the shade."

TOM PETERS

The Fed

The Federal Reserve raised interest rates by 0.25 percent, with the Federal Open Market Committee (FOMC) signaling that it may increase interest rates at a faster pace than it originally anticipated in December.

Based on its projections of the federal funds rate, the Fed may implement as many as seven quarter-point hikes this year and another three to four next year. The FOMC also indicated that it would soon announce its strategy for reducing the Fed's $9 trillion balance sheet.[18]

MARKET INDEX	Y-T-D CHANGE	April 2022
DJIA	-4.57%	2.32%
NASDAQ	-9.10%	3.41%
S&P 500	-4.95%	3.58%

BOND YIELD	Y-T-D	April 2022
10 YR TREASURY	0.82%	2.33%

Sources: Yahoo Finance, March 31, 2022.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

THE MONTHLY RIDDLE

1987, 1993, 1997, 1999. These are not only years on the calendar but also prime numbers. After 1999, what was the next year that was also a prime number?

LAST MONTH'S RIDDLE: You walk into a restaurant and the wood beneath your feet is neither straight nor smooth - even though the manager tells you the wood was just laid down the night before. The pieces are uneven, yet no one trips or falls. What kind of wood is on the floor of this restaurant?

ANSWER: Sawdust.

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Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry - we'll request their permission before adding them to our mailing list.)

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