



To our First National Wealth Management Clients:

As you may know, over the last three and five years the S&P 500 has delivered annual returns of 18.92% and 15.99% respectively. Given such strong returns it is not surprising that the first quarter of 2022 saw the S&P 500 decline 4.6% as securities reprice. Companies have been hit with many challenges this year including:

- Inflation 40 year high at 8.5% (although many would argue cost of living is up much more than 8.5% year over year);
- A challenged labor market as baby boomers retire at record rates and the skills they have spent 40+ years perfecting (construction, plumbing, HVAC, truck driving, etc.) are being replaced by people entering the work force with folks who aren't interested in learning those skills;
- Many companies giving employees cost of living adjustments far below the actual cost of living.
- Supply chain bottlenecks.
- Short term rates rising faster than long term rates; and,
- The oil supply challenges that started in January 2021 that accelerated with Russia's invasion of Ukraine.

Americans are resilient and entering these challenging times from a period of strength. While a 30-year mortgage rate over 5% might appear as a challenge to some, only 1% of outstanding US mortgages are currently adjustable rate based (compared with 40% in 2005). It is easy to understand why cost of living increasing faster than wages could be concerning, but we take comfort knowing that consumers accumulated excess savings of around \$2.5 trillion during the pandemic. Also, homeowners are sitting on equity of \$26 trillion. Business owners we speak with tell us one of the biggest challenges they face today is finding qualified workers so the labor market is healthy. Often times a buildup of excess inventory would be considered a recessionary red flag, but the supply chain challenges plaguing us today have eliminated that concern.

Where do we go from here?

- Keep duration short and quality high on the fixed income side.
- On the equity side focus on high quality companies with consistent, repeatable cash flows that have a history of returning capital to shareholders.
- Buy high quality growth stocks on dips.
- Hold high quality international bonds and stocks as a hedge against inflation at home.
- We will get through this period of volatility and be stronger for it.

For the foreseeable future you will likely see many headlines around the Federal Reserve raising interest rates to combat inflation. Many of those headlines will be negative in nature and designed to scare you, but remember the Fed is raising rates because they see strength in the economy (even if it does cause short term volatility in the equity markets). It is kind of like taking the training wheels off of a bike. You take them off because the rider's skill has advanced enough that they no longer require them. The initial shock might make for things to be a bit wobbly, but ultimately the rider becomes a much stronger and better rider for not using them. Having the private sector take control of the economy back is good long term, just understand there might be a few bumps when the free money (training wheels) goes away.

Sincerely,

A handwritten signature in black ink that reads "Nicholas Walton".

**Nicholas Walton, CFA** | Vice President, Portfolio Manager  
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**First National**  
WEALTH MANAGEMENT

# Quarterly Market Review: January-March 2022



## The Markets (first quarter through March 31, 2022)

Wall Street dealt with several major issues in the first quarter of 2022. Investors had to evaluate the impact of rising inflation, higher interest rates, ongoing coronavirus concerns, and the Russia-Ukraine war. Each of the benchmark indexes listed here lost value by the end of the quarter. However, Treasury yields, the dollar, gold, and crude oil prices ended the first quarter higher. Among the market sectors, energy increased nearly 40.0%, while utilities climbed about 5.0%. The remaining sectors ended the quarter in the red, with consumer services (-12.0%) and information technology (-8.0%) losing the most.

The yield on 10-year Treasuries rose nearly 80 basis points. Crude oil prices increased nearly \$28.00 per barrel, or 38.0%, in the first quarter. The dollar gained nearly 2.8%, while gold prices advanced more than 6.0%. The national average price for regular gasoline was \$4.231 per gallon on March 28, \$0.950 higher than the January 3 price of \$3.281 and \$1.379 higher than a year ago.

January began the quarter with stocks reaching new all-time highs. Unfortunately, that was the high point of the month for Wall Street. The first month of the year turned out to be a pretty rough one for investors. The Russell 2000 lost 9.7%, the Nasdaq slid 9.0%, the S&P 500 dipped 5.3%, the Dow fell 3.3%, and the Global Dow slipped 0.6%. In all, January produced the worst first-month performance since 2009, and that includes a notable rally over the last two days of the month. Investors dealt with concerns over rising inflation, the prospects of higher interest rates, and the pace of global economic recovery, despite the fourth-quarter U.S. GDP advancing at an annualized rate of 6.9%, while nearly 200,000 new jobs were added. On the other hand, industrial production slowed and new orders for durable goods declined. Prices at the pump increased, closing the month at about \$3.323 per gallon for regular gasoline. Ten-year Treasury yields, the dollar, and crude oil prices climbed higher, while gold prices fell.

February also opened the month on a high note, but stocks tumbled into the red by the end of the month. The S&P 500 fell to its lowest level since June 2021. Not only were investors still coping with rising inflation and interest-rate hikes, but a new crisis emerged in February — Russia's invasion of Ukraine. The United States and several other nations imposed sanctions against Russia, some of which were aimed at curtailing Russian oil and natural gas exports, which resulted in a surge in energy prices. Initially, the conflict in Ukraine shook global financial markets as stocks fell, and concerns grew that heating bills and food prices would skyrocket. By the close of the month, the Dow, the S&P 500, and the Nasdaq fell more than 3.0%. Ten-year Treasury prices initially fell on inflation worries, although yields later advanced as bond prices receded. The dollar and gold prices rose. Crude oil prices jumped more than 8.0% from the previous month, reaching \$95.62 per barrel on the last day of February.

Despite attempts at peace talks, the war in Ukraine intensified in March, prompting the imposition of more economic sanctions against Russia. Inflationary pressures continued to mount, which led the Federal Reserve to raise interest rates 25 basis points with additional rate hikes anticipated. Nevertheless, stocks showed resilience. Each of the benchmark indexes posted gains from February. The S&P 500 rose 5.0%, the Nasdaq gained 4.7%, the Dow added 3.6%, the Russell 2000 climbed 2.1%, and the Global Dow increased 1.9%. Although crude oil prices were trending lower by the end of March, they were still \$8.00 per barrel higher than where they began the month. The yield on 10-year Treasuries advanced nearly 50 basis points. The dollar gained 1.5%, and gold prices climbed 1.9% to \$1,945.70 per ounce.

April 12, 2022

#### Key Dates/Data Releases

4/1: Employment situation, Markit Manufacturing PMI

4/5: International trade in goods and services, Markit Services PMI

4/12: Consumer Price Index, Treasury budget

4/13: Producer Price Index

4/14: Retail sales, import and export prices

4/15: Industrial production

4/19: Housing starts

4/20: Existing home sales

4/26: New home sales, durable goods orders

4/27: International trade in goods

4/28: GDP

4/29: Personal income and outlays

## Stock Market Indexes

Market/Index	2021 Close	As of March 31	Monthly Change	Quarterly Change	YTD Change
DJIA	36,338.30	34,678.35	2.32%	-4.57%	-4.57%
Nasdaq	15,644.97	14,220.52	3.41%	-9.10%	-9.10%
S&P 500	4,766.18	4,530.41	3.58%	-4.95%	-4.95%
Russell 2000	2,245.31	2,070.13	1.08%	-7.80%	-7.80%
Global Dow	4,137.63	4,098.73	1.19%	-0.94%	-0.94%
Fed. Funds	0.00%-0.25%	0.25%-0.50%	25 bps	25 bps	25 bps
10-year Treasuries	1.51%	2.32%	49 bps	81 bps	81 bps
US Dollar-DXY	95.64	98.35	1.71%	2.83%	2.83%
Crude Oil-CL=F	\$75.44	\$100.94	5.56%	33.80%	33.80%
Gold-GC=F	\$1,830.30	\$1,941.50	1.65%	6.08%	6.08%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

## Latest Economic Reports

- **Employment:** Employment rose by 678,000 in February, notably higher than the January revised total of 481,000. Despite the increase, employment is down by 2.1 million, or 1.4%, from its pre-pandemic level in February 2020. The unemployment rate inched down by 0.2 percentage point to 3.8%. The number of unemployed persons decreased 243,000 in February to 6.3 million. By comparison, in February 2020 prior to the coronavirus (COVID-19) pandemic, the unemployment rate was 3.5%, and the number of unemployed persons was 5.7 million. Among the unemployed, the number of workers who permanently lost their jobs declined by 100,000 to 1.5 million in February. Also in February, the number of persons who were unable to work because their employer closed or lost business due to the pandemic fell to 4.2 million. The labor force participation rate increased 0.1 percentage point to 62.3% in February. The employment-population ratio increased by 0.2 percentage point to 59.9%. In February, average hourly earnings were relatively unchanged at \$31.58. Over the last 12 months, average hourly earnings rose by 5.1%. The average work week rose by 0.1 hour to 34.7 hours in February.
- There were 202,000 initial claims for unemployment insurance for the week ended March 26. Over the first three months of 2022, initial weekly claims and total claims for unemployment insurance benefits steadily decreased. As of March 19, there were 1,307,000 total claims for unemployment benefits. This is the lowest level for insured unemployment since December 27, 1969, when it was 1,304,000. A year ago, there were 3,753,000 total claims for unemployment insurance benefits.
- **FOMC/interest rates:** Following its meeting in March, the Federal Open Market Committee increased the federal funds target rate range by 25 basis points to 0.25%-0.50%. In support of its decision, the Committee noted that inflation remains elevated due to imbalances related to the pandemic, higher energy prices, the Russia-Ukraine conflict, and broader price pressures. In addition, the FOMC anticipates six more rate hikes, some could be by as much as 50 basis points.
- **GDP/budget:** Gross domestic product rose 6.9% in the fourth quarter of 2021 compared with a 2.3% advance in the third quarter. The increase in GDP primarily reflected increases in private inventory investment, exports, personal consumption expenditures, and nonresidential fixed investment that were partly offset by decreases in both federal and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased. Consumer spending, as measured by personal consumption expenditures, was 2.5% in the fourth quarter (2.0% in the third quarter). Spending on goods rose by 1.1%, while spending on services climbed 3.3%. The PCE price index, a measure of inflation, increased 6.4% in the fourth quarter after advancing 5.3% in the third quarter. Gross private domestic investment, which includes nonresidential and residential fixed investment, vaulted 36.7% in the fourth quarter after gaining 12.4% in the third quarter. Nonresidential (business) fixed investment increased 2.9% (1.7% in the third quarter), while residential fixed investment increased 2.2% (-7.7% in the third quarter). Exports jumped 22.4% in the fourth quarter after falling 5.3% in the prior quarter. Imports climbed 17.9% following a 4.7% rise in the third quarter.
- The Treasury budget deficit came in at \$216.6 billion in February, a notable jump from the surplus of \$118.7 billion in January. By comparison, the deficit in February 2021 was \$310.9 billion. Through the first five months of fiscal year 2022, the deficit sits at \$475.6 billion, 55.0% lower than the deficit over the

same period in fiscal year 2021. So far in this fiscal year, individual income tax receipts have risen 38.0% and corporate income tax receipts have increased 31.0%. Compared to the same period last fiscal year, government expenditures fell 9.0% to \$506.5 billion, while receipts rose 17.0% to \$289.9 billion.

- **Inflation/consumer spending:** According to the latest Personal Income and Outlays report for February, personal income rose 0.5%, while disposable personal income increased 0.4% after each increased 0.1% in January. Consumer spending increased 2.0% following a 2.7% jump in January. Consumer prices climbed 0.6% in February after advancing 0.5% in January. Consumer prices have risen 6.4% since February 2021. Year over year, energy prices vaulted 25.7%, while food prices increased 0.8%.
- The Consumer Price Index climbed 0.8% in February after climbing 0.6% in the previous month. Increases in the indexes for gasoline, shelter, and food were the largest contributors to the CPI increase. The gasoline index rose 6.6% in February and accounted for almost a third of the overall February increase. Since February 2021, the CPI has risen 7.9% — the largest increase since the period ending January 1982.
- Prices that producers receive for goods and services jumped 0.8% in February following a 1.2% increase in January. Producer prices have increased 10.0% since February 2021. Prices less foods, energy, and trade services increased 0.9% in January, the largest increase since rising 1.0% in January 2021. For the year, prices less foods, energy, and trade services moved up 6.6%. In February, prices for goods jumped 2.4%, while prices for services were unchanged. A major factor in the February increase in the prices for goods was an 8.2% increase in energy prices, within which gasoline prices spiked 14.8%.
- **Housing:** Sales of existing homes reversed course, falling 7.2% in February after advancing 6.7% in January. Year over year, existing home sales were 2.4% under the February 2021 estimate. According to the latest survey from the National Association of Realtors®, housing affordability continues to be a major challenge, as buyers are getting a double whammy: rising mortgage rates and sustained price increases. The median existing-home price was \$357,300 in February, up from \$350,300 in January and 15.0% more than February 2021 (\$310,600). Unsold inventory of existing homes represents a 1.7-month supply at the current sales pace. Sales of existing single-family homes also fell, down 7.0% in February after rising 6.5% the previous month. Since February 2021, sales of existing single-family homes have fallen 2.2%. The median existing single-family home price was \$363,800 in February, up from \$357,100 in January.
- Sales of new single-family homes fell 2.0% in February after decreasing 8.4% (revised) in January. The median sales price of new single-family houses sold in February was \$400,600 (\$427,400 in January). The February average sales price was \$511,000 (\$494,000 in January). The inventory of new single-family homes for sale in February represented a supply of 6.3 months at the current sales pace, up from January's 6.1-month supply. Sales of new single-family homes in February were 6.2% below the February 2021 estimate.
- **Manufacturing:** Industrial production increased 0.5% in February following a 1.4% increase in January. In February, manufacturing rose 1.2% and mining increased 0.1%, while utilities fell 2.7%. Total industrial production in February was 7.5% higher than it was a year earlier. Since February 2021, manufacturing has risen 7.4%, mining has jumped 17.3%, while utilities decreased 1.2%.
- February saw new orders for durable goods decrease 2.2%. This decrease, down after four consecutive monthly increases, followed a 1.6% January increase. Excluding transportation, new orders fell 0.6% in February. Excluding defense, new orders dropped 2.7%. Transportation equipment, down following three consecutive monthly increases, led the decrease, declining 5.6%.
- **Imports and exports:** Import prices rose 1.4% in February after advancing 1.9% in January, according to the U.S. Bureau of Labor Statistics. Higher fuel and nonfuel prices drove the increases in both months. Contributing to the increase in February import prices was a 6.9% jump in fuel prices. Prices for nonfuel imports rose 0.8% in February. For the 12 months ended in February, prices for imports have advanced 10.9%. Over the same period, prices for fuel have increased 53.0%. Prices for U.S. exports advanced 3.0% in February following a 2.8% rise the previous month. The February advance in export prices was the largest since January 1989. Higher prices for both agricultural and nonagricultural exports in January contributed to the overall increase in U.S. export prices. Export prices have risen 16.6% since February 2021.
- The international trade in goods deficit was \$106.6 billion in February, down \$1.0 billion, or 0.9%, from January. Exports of goods were \$157.2 billion in February, \$1.9 billion more than in January. Imports of goods were \$263.7 billion, \$0.9 billion more than January imports.
- The latest information on international trade in goods and services, released March 8, is for January and shows that the goods and services trade deficit rose by \$7.7 billion to \$82.0 billion from the December

2021 deficit. January exports were \$224.4 billion, \$3.9 billion less than December exports. January imports were \$314.1 billion, \$3.8 billion more than December imports. Year over year, the goods and services deficit increased \$24.6 billion, or 37.7%, from the same period in 2021. Exports increased \$29.9 billion, or 15.4%. Imports increased \$54.4 billion, or 21.0%.

- **International markets:** While business activity in the United States picked up, despite the turmoil in Ukraine, Europe hasn't been quite as fortunate. Most of Europe has seen the war exacerbate already strained supply chains, which has sent prices for raw materials and energy soaring — despite the lifting of most pandemic-related restrictions. The European Central Bank lowered its forecast for economic growth in the eurozone from 4.2% to 3.7%, while acknowledging that the impact of the Russian invasion could be larger. In Japan, the government proposed more measures to boost the economy. China saw a drop in stock prices after reports of a worsening coronavirus outbreak across the mainland. Overall, for the markets in March, the STOXX Europe 600 Index rose 3.1%. The United Kingdom's FTSE gained 2.0%. Japan's Nikkei 225 Index climbed 6.2%, while China's Shanghai Composite Index fell 6.3%.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® rose slightly in March following a decline in February. The index stands at 107.2, up from 105.7 in February. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, improved to 153.0 in March, up from 143.0 in February. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, declined to 76.6 in March, down from 80.8 in February.

## Eye on the Month Ahead

Despite accelerating inflation, the war in Ukraine, and rising interest rates, most economic indicators are still demonstrating varying degrees of strength. However, March data may begin to show some economic slowing. Gross domestic product, which ran at an annualized rate of nearly 7.0% in February, is likely to recede, while the pace of job growth may decelerate. While the Federal Open Market Committee does not meet in April, it is expected to push interest rates up by 50 basis points in May. Hopefully, a resolution to the Russia-Ukraine conflict is near.

*Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.*

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