Vardhan Views: Week of April 25th, 2022

Periodic Returns

	Trailing Week			Quarter-to-Date			Year-to-Date		
	Value	Blend	Growth	Value	Blend	Growth	Value	Blend	Growth
U.S. Large-Cap	-2.0%	-2.9%	-3.8%	-2.4%	-5.8%	-9.1%	-3.1%	-10.6%	-17.3%
U.S. Mid-Cap	-1.7%	-2.6%	-4.7%	-2.4%	-4.4%	-8.4%	-4.1%	-9.8%	-19.9%
U.S. Small-Cap	-2.2%	-3.2%	-4.4%	-4.3%	-6.2%	-8.4%	-6.6%	-13.3%	-19.9%

	Trailing Week	Quarter-to-Date	Year-to-Date
S&P 500 Index	-2.7%	-5.6%	-10.0%
NASDAQ Composite	-3.8%	-9.7%	-17.8%
International Developed	-1.5%	-4.4%	-10.0%
Emerging Markets	-3.3%	-5.6%	-12.2%
U.S. Aggregate Bond	-1.0%	-3.8%	-9.5%
U.S. Municipals	-1.2%	-2.5%	-8.6%
Corporate High Yield	-0.9%	-2.7%	-7.4%

Source: Morningstar, see 'Disclaimer' for details

U.S. Equity Markets

- U.S. equities were lower as investors digested hawkish statements from the Fed hinting of more aggressive rate hikes. The Dow Jones Industrial Average fell nearly 1,000 points on Friday, its largest single-day point decline since the midst of the pandemic in 2020.
- Some notable stocks from last week include Netflix, which fell almost 37% after the streaming service giant reported a net loss of 200,000 subscribers in the first quarter and is projecting a loss of another two million subscribers in the second quarter. Auto manufacturer Tesla boasted a record quarterly profit while online used-car retailer Carvana reported a decline in net sales last quarter. Tesla's stock price rose 2% last week while Carvana's fell by more than 17%.
- Within the S&P 500 Index, the communication services sector fell the most, down nearly 8%. Other leading laggards included energy and health care, which fell around 4% each.
- Value stocks' losses were not as severe as growth while large-cap stocks slightly outperformed small-caps.

International Equity Markets

- Both developed and emerging international equities declined last week in USD terms, although emerging markets underperformed more severely than developed according to their MSCI indices.
- European shares declined amid ongoing concerns about the war in Ukraine and increased hawkish tones among central bank policymakers.
- Japanese stocks rose modestly over the week as the local Japanese consumer price inflation index rose 0.8% year-over-year in March, backing the central bank's commitment to maintain its ultra-loose monetary policy. On the flipside, the yen is hovering near a two-decade low against the U.S. Dollar.
- Chinese stocks plummeted as investors feared extended lockdowns and restrictions would remain in place to combat the latest coronavirus outbreaks. Foreign investors sold around $8 billion worth of Chinese stocks in March and April, the largest two-month outflow in nearly two years.

Authored by the Summit Financial Investment Team

Credit Markets (perspectives from our partners at Piton Investment Management)

- The U.S. Treasury curve headed into the week's close with higher yields, led by the front end which resulted in further yield curve flattening. The 10-year closed around 2.91%, quickly approaching 3% which some investors consider a theoretical ceiling.
- The 2s10s curve was flatter at 19bps, after opening the week closer to 40bps.
- Investment grade spreads were wider by around 10bps last week as outflows continued. IG funds reported $3.6 billion in outflows versus $4.5 billion outflows the week prior. Interestingly, high yield funds totaled $885 million of outflows, much less than the $4 billion outflows from a week ago.
- Primary corporate bond issuance last week was primarily made up of financial companies after releasing first-quarter earnings. Around $530 billion worth of corporate bonds have been issued for the year.
- Municipal bond yields marched higher by 15-22bps as hawkish Fed comments continue to drive up rates.
- Debt maturing in 10 years for municipal bonds yields 92% of Treasury yields on average compared to 86% a week ago.
- Outflows from municipal funds continued for the 10th straight week losing $3.5 billion. Year-to-date outflows total $38.6 billion.

U.S. Economic Data/News

- On Thursday, Federal Reserve Chairman Jerome Powell indicated the central bank is likely to raise short-term interest rates by 0.50% at its May 3rd-4th policy meeting. He also endorsed two or more half percentage-point rate increases, leading bond traders to price four of them into the market by the end of September. A rate increase of this size, 0.50%, would be the first since 2000.
- The Fed also formally announced plans to begin methodically shrinking its $9 trillion balance sheet in June. Powell stated, "it is appropriate in my view to be moving a little more quickly" and "there's something in the idea of front-end loading". He disputed fears that the moves would cause a recession given the historically strong labor market.
- Data released for the S&P Global U.S. Composite PMI Output Index suggested business activity growth slowed compared to March but remained strong. The reading came in at 55.1 in April compared to 57.7 in March. The S&P Services PMI hit 54.7 in April, lower than 58.0 in March. Demand for services remained strong but contended with the steepest increase in labor and wages on record.
- The labor market remains strong as initial weekly jobless claims tallied in at 184,000 last week, near the all-time low mark. Continuing claims, declined from 1.48 million to 1.42 million week over week, albeit reported with an extra week lag. The unemployment rate fell to 3.6% in March, and average wages grew by 5.6% in March compared to one year ago.

International Economic Data/News

- European Central Bank President Christine Lagarde reiterated her statement that the bank's asset purchase program will wind down in the third quarter, and current data feeding in will guide future decisions around interest rate increases.
- The Eurozone's PMI Composite Output Index unexpectedly rose to 55.8 in April from 54.9 in March although analysts expected a drop. However, manufacturing activity was flat because of supply chain constraints, rising prices, and complications created from the Ukraine conflict.
- Japan's April flash PMI data reflected expansions from both the services and manufacturing sectors. Increased costs slowed momentum as firms passed the higher expenses onto clients.
- The People's Bank of China kept rates unchanged with the one-year rate at 3.7% and the five-year rate at 4.6%. PBOC Governor Yi Gang vowed to keep accommodative policies to ease the economic slowdown.
- China's economy grew by 4.8% in the first quarter compared to one year ago. Compared to last quarter, it grew by 1.3%, lower than the last quarterly figure of 1.6%. However, the International Monetary Fund downgraded China's 2022 growth forecast to 4.4% from 4.8% for the second time in three months.

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Odds and Ends

- Mortgage interest rates rose for the seventh consecutive week and reached their highest level in more than a decade according to Freddie Mac. The 30-year fixed rate averaged 5.11% last week, up from 5% flat the week before. This rise in rates is slowly starting to show in sales figures as March's existing home sales were lower by 2.7% in March from February. To pour salt in the wound, affordable, entry-level homes are hard to come by because there are so few on the market. And if one of them does go for sale, it is often snatched up immediately, frequently at higher prices than the listing stated. The cost to finance a home is about 40% higher than it was a year ago, which will inevitably affect more and more buyers searching for homes.
- This week, around one third of S&P 500 companies are expected to report first quarter earnings. Mega-cap companies Apple, Amazon, and Microsoft headline the firms expected to report, factoring in how the Russian invasion of Ukraine and elevated costs affected their businesses. Facebook parent Meta Platforms, Google owner Alphabet, and Twitter are on the docket for next week. Netflix may have been the metaphorical warning after it announced it lost subscribers for the first time in 10 years. Based on actual results and estimates for companies yet to report, quarterly earnings are expected to rise 6.6% year over year according to FactSet.
- Sanctions imposed on Russia have resulted in around 8,000 luxury cars to remain parked at the Port of Zeebrugge in Belgium. A recently enacted luxury ban prohibits vehicles worth more than €50,000 ($54,000) from being exported out of Russia. This is an example of how authorities must interpret and implement confusing sanctions to keep global economies moving and avoid unnecessary bottlenecks. The latest batch of cars includes models from Lexus, Cadillac, and Mercedes which arrived from Asia the first week of April. They were to then be distributed through Russia but hit a roadblock. This comes as ports across the globe grapple with record amounts of cargo following forced shutdowns from the pandemic. The sanctions may create a new complication of supply-chain effects.

Resource of the week:

- If you've recently bought sports apparel online, you interacted with Fanatics. They power the entire digital commerce experience for the NFL, MLB, NBA, NHL, and hundreds of other sports leagues around the world. To break down the infrastructure of Fanatics in this episode of *Business Breakdowns*, host Jesse Pujji speaks with an early investor, Deven Parekh from Insight Partners. Deven has been an investor in Fanatics since 2011. Fanatics' unique vertically integrated commerce model, how they redefine their target market, and how the company is aggressively entering Non Fungible Tokens (NFTs), real-money betting, and other expansion areas are discussed. Please enjoy this *Business Breakdown* episode to hear more about a business profiting from a thriving global sports industry.
- **Podcast link**: https://www.joincolossus.com/episodes/30424107/parekh-fanatics-growing-the-sports-economy?tab=blocks

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

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The periodic returns are represented by the following indices: large-cap value by Russell 1000 Value TR Index, large-cap blend by Russell 1000 TR Index, large-cap growth by Russell 1000 Growth TR Index, mid-cap value by Russell Mid Cap Value TR Index, mid-cap blend by Russell Mid Cap TR Index, mid-cap growth by Russell Mid Cap Growth TR Index, small-cap value by Russell 2000 Value TR Index, small-cap blend by Russell 2000 TR Index, and small-cap growth by Russell 2000 Growth TR Index, international developed by the MSCI EAFE NR USD Index, Emerging Markets by the MSCI EM NR USD Index, U.S. Aggregate Bond by the Bloomberg US Agg Bond TR USD Index, U.S. Municipals by the Bloomberg Municipal TR USD Index, and Corporate High Yield by the Bloomberg US Corporate High Yield TR USD Index. The S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors. The Nasdaq Composite Index is a large market capitalization-weighted index of more than 2,500 U.S.-domiciled stocks. The index's composition is heavily weighted to the information technology sector, with consumer services, health care, and financials the next most prominent industries. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected. The MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Europe Index captures large- and mid-cap representation across developed markets countries in Europe. The index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe. The MSCI China Index captures large- and mid-cap representation across China A-shares, H shares, Red chips, P chips, and foreign listings. The index covers about 85% of the China equity universe. The Nikkei 225 Index is a stock market index for the Tokyo Stock Exchange which is price-weighted operating in Japanese Yen. The index measures the performance of 225 large, publicly owned companies in Japan from different industry sectors. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS, and CMBS (agency and non-agency. The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. The Bloomberg U.S. Corporate High-Yield Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on the EM country definition, are excluded. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. CPI is often used as a barometer to measure inflation. The Caixin China General Services PMI (Purchasing Managers' Index) is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The index tracks variables such as sales, employment, inventories, and prices. A reading above 50 indicates that the services sector is generally expanding; below 50 indicates that it is generally declining. The 2s30s spread is the difference between the yield on the 30-year Treasury bond and the yield on the 2-year Treasury note.

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