January 2022

# DeMarche Dashboard

## A Flash Report on Markets and the Economy


Data and Commentary for Periods Ended 1/31/2022

## Global Overview

Global market volatility returned in January with a vengeance as the market digested concerns regarding global inflation, prospects of the Fed raising rates early, and geopolitical challenges with Russia. Equity returns around the globe turned negative in January with the S&P 500 Index -5.2% and the EAFE Index -4.8% for the month, in stark contrast compared to the more robust returns of 23.3% and 7.0%, respectively, for the latest 12 months. The MSCI Emerging Market Index moved in sympathy with developed markets, posting a negative 1.9% return for the month, and continued to lag the developed markets over longer periods with a loss of 7.2% for the last 12 months. The Emerging markets' underperformance broadly reflects mixed economic news in many of its constituents and ongoing challenges in China including slowing GDP growth, restrictive COVID policies, and a bursting real estate bubble among other socioeconomic headwinds.

## U.S. Markets & Economy

Volatility increased in the domestic equity market in January as concerns over inflation becoming persistent became widespread, increasing the probability of the Fed starting to raise rates in March 2022. The U.S. economy continued to show signs of strength after the fourth quarter GDP grew 6.9% and 5.7% for the year 2021, as the labor force participation rate increased to 62.2% in January from 61.9% in December and wages increased 5.7% in January. In addition, the unemployment rate inched up to 4% due to increasing Omicron covid-19 cases, in spite of Non-Farm Payrolls increasing by 467,000 in January revised from an increase of 510,000 in December. Despite the continued signs of growth, the equity market contracted as 10 of the 11 sectors in the S&P 500 Index declined during the month. Energy was the sole sector that produced a positive return in January. With inflation concerns in the headlines, value continued to outperform growth as the Russell 2000 Value Index returned -5.8% in January (+14.8% for the last 12 months) versus the Russell 2000 Growth's -13.4% return in January (-15.0% for the last 12 months).

As the fixed income market digested the increased likelihood that the Fed would complete their tapering of asset purchases and start raising rates in March, the market shifted to pricing to incorporate five rate hikes during 2022 from the previous month's expectations of three rate hikes for the year. Although U.S. Treasury yields rose during January, the yield curve flattened as inflation concerns increased the short end with the two-year yield increasing 45 bps to yield 1.18% while longer term, lower growth concerns moderately increased the 30-year yield by 21 bps to yield 2.1%. Consequently, the Bloomberg U.S. Aggregate Bond Index returned -2.2% during the month and -3.0% for the latest 12 months. In this environment floating rate fixed income tends to outperform as seen in the S&P/LSTA Leveraged Loan Index's positive return of 0.4% for January and 4.3% for the latest 12 months.

## International Markets & Economy

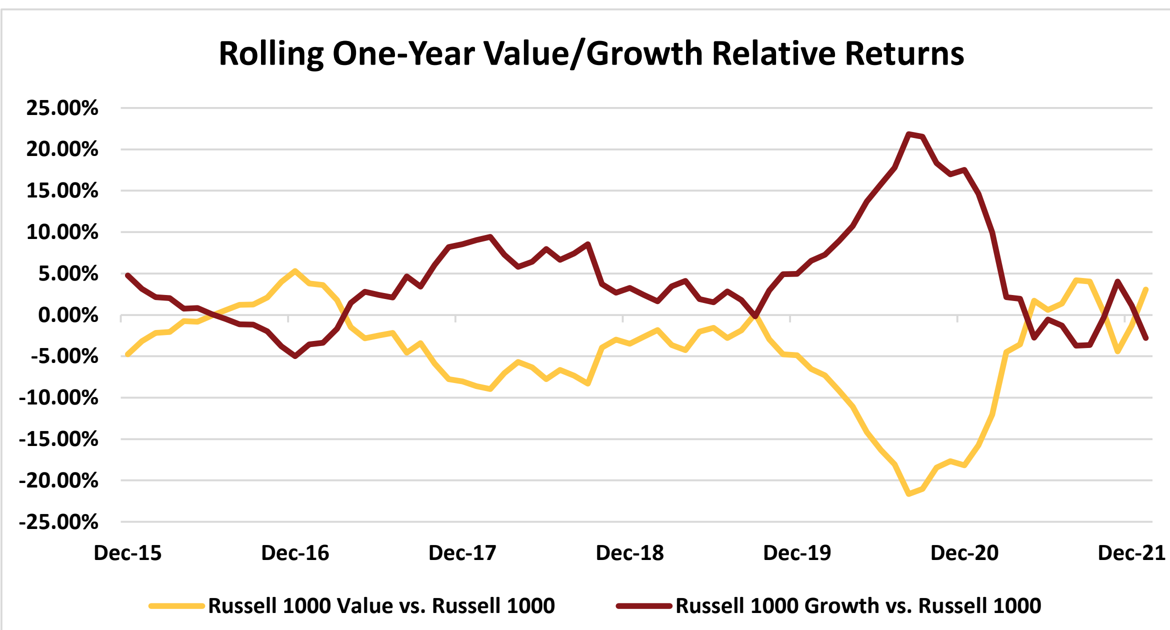
International markets fell alongside other markets to kick off the year as the MSCI EAFE Index lost 4.8% in January. Markets fell in the month as investors were worried about upcoming interest rate policy decisions from the Bank of England and the ECB. Also, geopolitical issues on the Ukrainian border flared as Russia massed troops on the border. Europe relies on Russia for a large amount of its energy supply so any disruption could cause a major economic impact to the EU. The IHS Markit Composite PMI, which measures both the manufacturing and services sector, was 53.3 for the month indicating positive overall economic growth, although lower than December. Economic news in Japan was mixed for the month as manufacturing PMI increased while the services PMI fell below 50. Economists are still predicting the Japanese economy to grow more than 3% in 2022, which would be the fastest growth in over a decade.

The MSCI EM Index fell 1.9% during the month with mixed economic news across various countries. China's Caixin PMI index fell below 50 for the first time in 23 months as the Chinese economy continues to slow. Central banks across various other emerging market nations continue to raise interest rates as high inflation persists.

## In the News

For the greater part of the last seven years growth has outperformed value in the US. The start of the pandemic accelerated this trend, but 2021 saw value begin to outperform. In our Chart of the Month we take a look at the rolling twelve month returns of the Russell 1000 Value and Growth versus the Russell 1000. The first month of 2022 started out with a large tech selloff sparked by worries of rising interest rates causing growth to continue to underperform value. The January FOMC meeting set the stage for liftoff with the first expected interest rate increase in March. Growth stocks, in particular technology stocks, were hit hardest as investors worry about the impact of a higher rate environment and the pressure that puts on future earnings. The NASDAQ composite at one point was down over 15% during the month and ended the month down 9%.

## Chart of the Month




Source: Morningstar

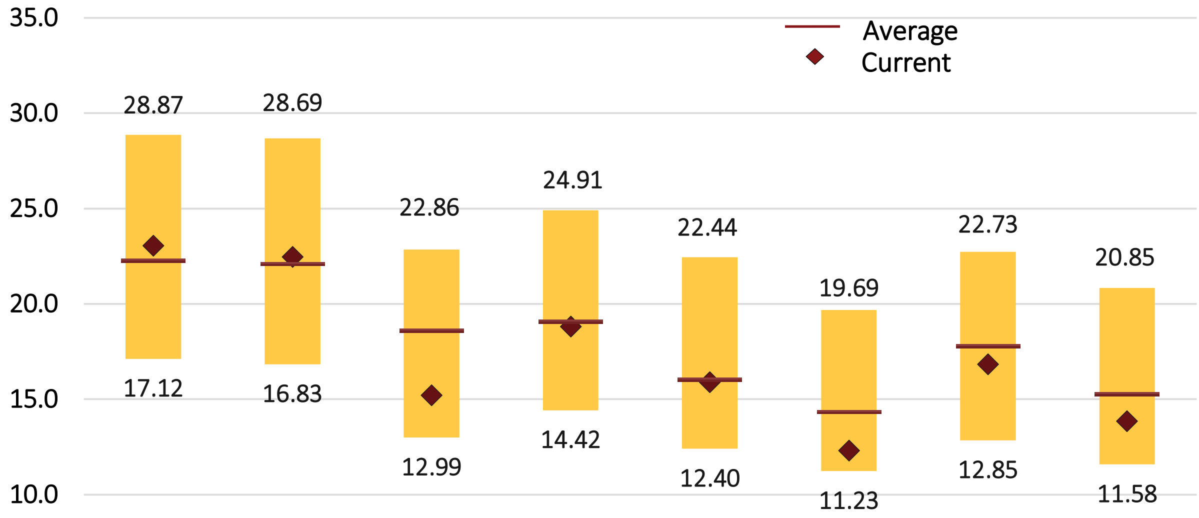
## Capital Markets Overview

| | | TRAILING | | | ANNUALIZED | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1-Mo | 3-Mo | YTD | 1-Yr | 3-Yr | 5-Yr | 10-Yr |
| Broad Market | MSCI World NR USD | (5.29) | (3.41) | (5.29) | 16.53 | 16.57 | 13.25 | 11.54 |
| | Bloomberg US Agg Bond TR USD | (2.15) | (2.12) | (2.15) | (2.97) | 3.67 | 3.08 | 2.59 |
| | Russell 3000 TR USD | (5.88) | (3.67) | (5.88) | 18.80 | 19.93 | 16.11 | 15.03 |
| | DJ Industrial Average TR USD | (3.24) | (1.47) | (3.24) | 19.36 | 14.47 | 14.61 | 13.44 |
| | NASDAQ Composite PR USD | (8.98) | (8.12) | (8.98) | 8.95 | 25.05 | 20.46 | 17.60 |
| | MSCI EAFE NR USD | (4.83) | (4.62) | (4.83) | 7.03 | 9.34 | 7.85 | 6.94 |
| | FTSE Treasury Bill 3 Mon USD | 0.00 | 0.01 | 0.00 | 0.04 | 0.89 | 1.11 | 0.60 |
| | Bloomberg Commodity TR USD | 8.78 | 4.38 | 8.78 | 34.73 | 11.01 | 5.39 | (2.27) |
| Domestic Equities | S&P 500 TR USD | (5.17) | (1.61) | (5.17) | 23.29 | 20.71 | 16.78 | 15.43 |
| | S&P MidCap 400 TR | (7.21) | (5.36) | (7.21) | 14.05 | 14.55 | 11.04 | 12.63 |
| | S&P SmallCap 600 TR USD | (7.27) | (5.28) | (7.27) | 10.65 | 13.25 | 10.83 | 12.92 |
| | Russell 1000 TR USD | (5.64) | (3.13) | (5.64) | 20.32 | 20.51 | 16.59 | 15.32 |
| | Russell 1000 Growth TR USD | (8.58) | (6.08) | (8.58) | 17.52 | 26.44 | 22.28 | 18.03 |
| | Russell 1000 Value TR USD | (2.33) | 0.17 | (2.33) | 23.37 | 13.84 | 10.48 | 12.28 |
| | Russell Mid Cap TR USD | (7.37) | (6.94) | (7.37) | 13.85 | 16.15 | 12.81 | 13.36 |
| | Russell Mid Cap Growth TR USD | (12.90) | (16.29) | (12.90) | (1.49) | 17.39 | 15.80 | 14.22 |
| | Russell Mid Cap Value TR USD | (4.27) | (1.35) | (4.27) | 23.14 | 14.10 | 9.88 | 12.40 |
| | Russell 2000 TR USD | (9.63) | (11.46) | (9.63) | (1.21) | 11.99 | 9.69 | 11.33 |
| | Russell 2000 Growth TR USD | (13.40) | (17.27) | (13.40) | (15.04) | 11.36 | 10.93 | 11.70 |
| | Russell 2000 Value TR USD | (5.83) | (5.34) | (5.83) | 14.75 | 11.72 | 7.92 | 10.64 |
| International Equities | MSCI ACWI Ex USA NR USD | (3.69) | (4.22) | (3.69) | 3.63 | 9.09 | 8.04 | 6.18 |
| | MSCI EAFE NR USD | (4.83) | (4.62) | (4.83) | 7.03 | 9.34 | 7.85 | 6.94 |
| | MSCI EAFE Growth NR USD | (10.50) | (9.79) | (10.50) | 0.94 | 12.27 | 10.36 | 8.28 |
| | MSCI EAFE Value NR USD | 1.04 | 0.62 | 1.04 | 12.93 | 5.88 | 5.05 | 5.38 |
| | MSCI Japan NR USD | (5.07) | (5.66) | (5.07) | (2.48) | 7.61 | 6.61 | 7.30 |
| | MSCI AC Asia Ex Japan NR USD | (3.10) | (5.58) | (3.10) | (11.29) | 8.32 | 9.28 | 6.58 |
| | MSCI Europe NR USD | (4.58) | (3.52) | (4.58) | 12.61 | 10.74 | 8.67 | 7.18 |
| | MSCI United Kingdom NR USD | 0.90 | 2.45 | 0.90 | 19.85 | 6.56 | 6.08 | 4.79 |
| | MSCI EAFE Small Cap NR USD | (7.32) | (8.68) | (7.32) | 2.42 | 9.86 | 8.61 | 9.09 |
| | MSCI EM NR USD | (1.89) | (4.13) | (1.89) | (7.23) | 7.19 | 8.30 | 4.16 |
| | MSCI China NR USD | (2.95) | (11.62) | (2.95) | (29.24) | 3.03 | 7.29 | 5.75 |
| Fixed Income | Bloomberg US Govt/Credit TR USD | (2.44) | (2.31) | (2.44) | (3.13) | 4.22 | 3.42 | 2.77 |
| | Bloomberg US Govt/Credit Long TR USD | (4.90) | (4.42) | (4.90) | (4.46) | 7.98 | 6.25 | 5.06 |
| | Bloomberg US Govt/Credit Interm TR USD | (1.47) | (1.48) | (1.47) | (2.62) | 3.05 | 2.55 | 2.12 |
| | ICE BofA US High Yield TR USD | (2.75) | (1.93) | (2.75) | 2.08 | 5.97 | 5.23 | 6.12 |
| | Credit Suisse HY USD | (2.56) | (1.66) | (2.56) | 2.26 | 5.77 | 4.98 | 5.92 |
| | S&P/LSTA Leveraged Loan TR | 0.36 | 0.84 | 0.36 | 4.34 | 4.88 | 4.23 | 4.50 |
| | FTSE WGBI NonUSD USD | (2.29) | (3.55) | (2.29) | (10.49) | 0.33 | 1.92 | (0.07) |
| | Bloomberg Gbl Agg Ex USD TR USD | (1.96) | (2.73) | (1.96) | (7.92) | 1.16 | 2.28 | 0.40 |
| REITs | FTSE Nareit All REITs TR | (7.71) | (0.52) | (7.71) | 29.30 | 11.78 | 10.22 | 10.44 |
| | Wilshire US REIT TR USD | (6.93) | 0.99 | (6.93) | 35.33 | 12.23 | 9.49 | 9.98 |

**USD** - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

Source: Morningstar

## Current Trailing P/E vs. Trailing 5-Year High, Low, Average




| | S&P 500 | Russell 1000 | Russell 2000 | MSCI AC World | MSCI EAFE | MSCI EM | MSCI Europe | MSCI AC Asia Pac |
|---|---|---|---|---|---|---|---|---|
| High Month | Mar-21 | Mar-21 | Nov-17 | Mar-21 | Mar-21 | Jan-21 | Mar-21 | Jan-21 |
| Low Month | Dec-18 | Dec-18 | Mar-20 | Dec-18 | Dec-18 | Dec-18 | Dec-18 | Dec-18 |

Source: Morningstar

## Economic Indicators

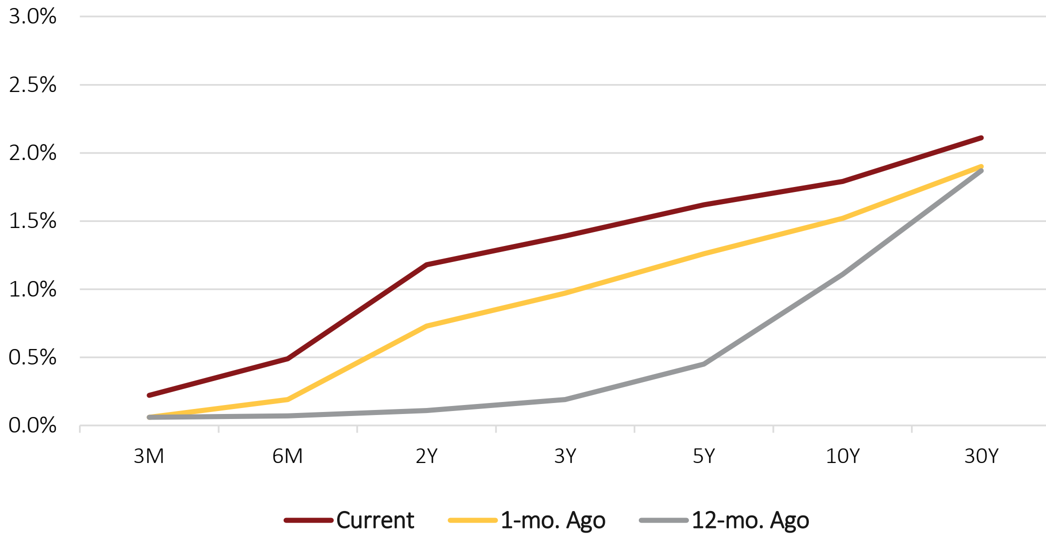
| | GDP | | | Unemployment Rate | Interest Rates | Exchange Rates[3] per US $ | | Inflation[2] |
|---|---|---|---|---|---|---|---|---|
| | Latest[1] | 2022[1] | 2023[1] | (Most recently available) | Sovereign Bonds, 10 Year | Current | 1 Year Ago | (Most recently available) |
| United States | 6.90 | 3.70 | 2.40 | 4.00 | 1.78 | - | - | 6.00 |
| China | 1.60 | 5.10 | 5.10 | 5.10 | 2.72 | 6.36 | 6.45 | 1.20 |
| Japan | -0.90 | 3.40 | 1.10 | 2.70 | 0.18 | 115.21 | 104.31 | 0.50 |
| United Kingdom | 1.10 | 4.70 | 2.10 | 4.10 | 1.31 | 1.34 | 1.37 | 4.20 |
| Euro Area | 0.30 | 4.30 | 2.50 | 7.00 | 0.28 | 1.12 | 1.21 | 2.30 |
| Germany | -0.70 | 4.10 | 2.40 | 5.10 | 0.01 | 1.12 | 1.21 | 3.70 |
| France | 0.70 | 4.20 | 2.10 | 8.10 | 0.43 | 1.12 | 1.21 | 2.00 |
| Italy | 0.60 | 4.60 | 2.60 | 9.00 | 1.37 | 1.12 | 1.21 | 1.50 |
| Canada | 1.30 | 3.90 | 2.80 | 5.90 | 1.77 | 1.28 | 1.28 | 4.00 |
| India | 12.70 | 8.10 | 5.50 | 8.00 | 6.68 | 75.39 | 73.62 | 5.60 |
| Mexico | -0.10 | 3.30 | 2.50 | 3.50 | 7.66 | 20.83 | 20.23 | 5.90 |
| Brazil | -0.10 | 1.40 | 2.10 | 11.60 | 11.08 | 5.39 | 5.40 | 7.30 |

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2021 & 2022 is forecasted data from OECD
2. In terms of Core CPI
3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

## U.S. Treasury Yield Curves

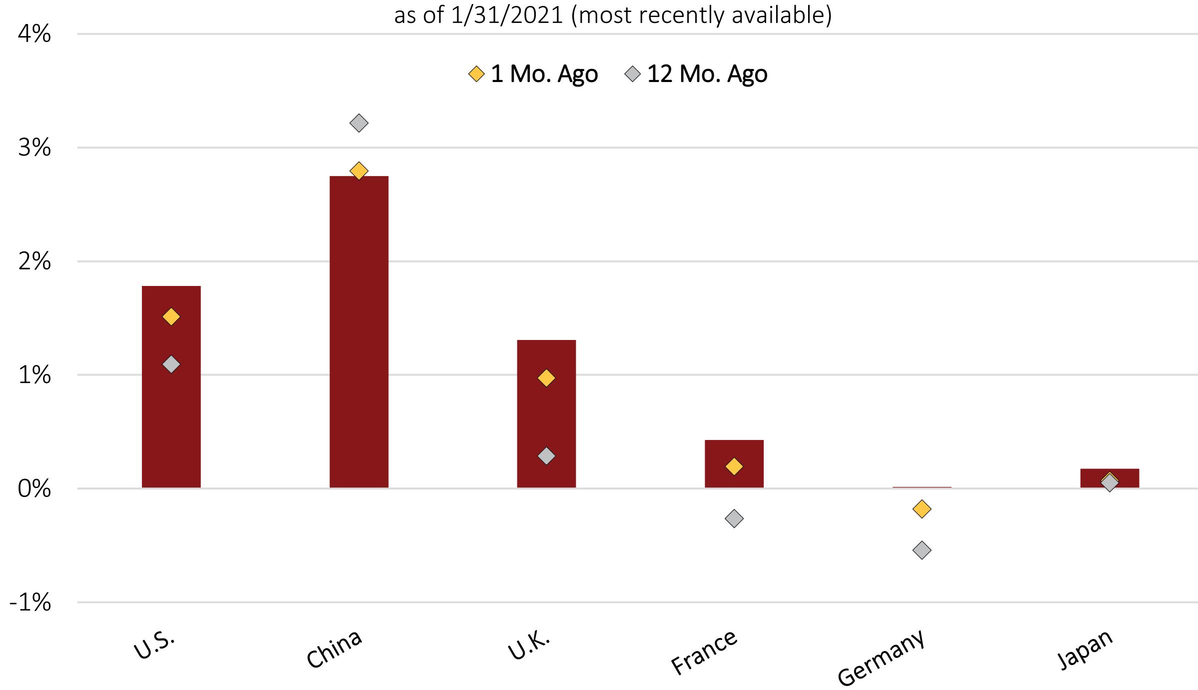
as of 1/31/2021




Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 1/31/2021 (most recently available)

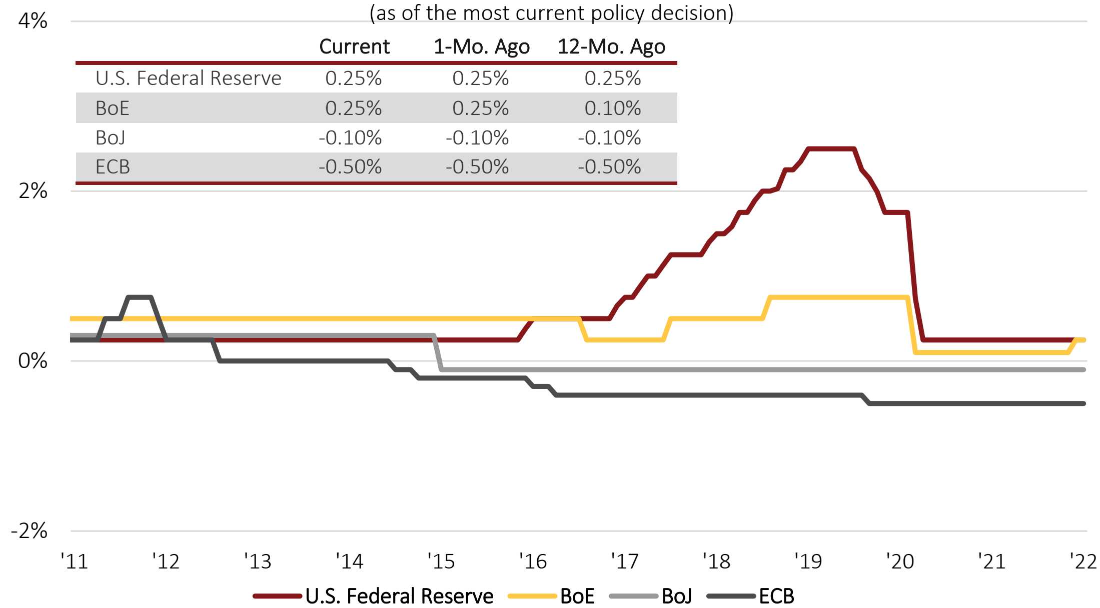



Source: Trading Economics

## Central Bank Policy Rates

(as of the most current policy decision)

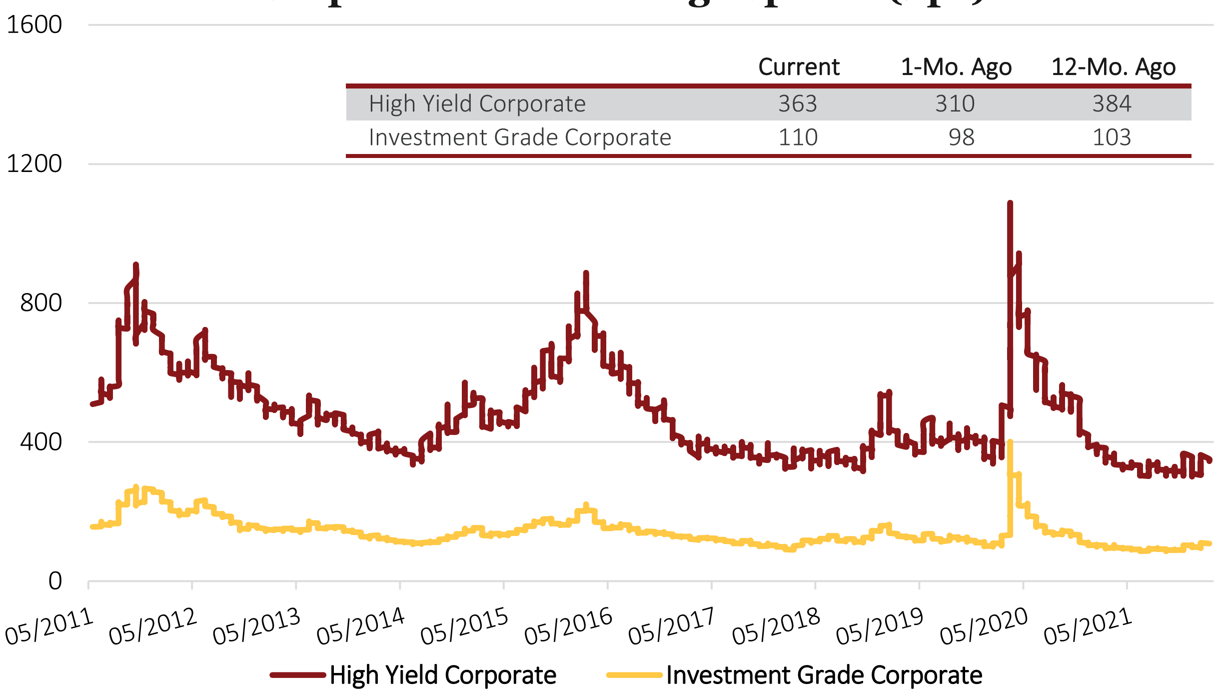
| | Current | 1-Mo. Ago | 12-Mo. Ago |
|---|---|---|---|
| U.S. Federal Reserve | 0.25% | 0.25% | 0.25% |
| BoE | 0.25% | 0.25% | 0.10% |
| BoJ | -0.10% | -0.10% | -0.10% |
| ECB | -0.50% | -0.50% | -0.50% |




Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## Corporate Bond Average Spread (bps)

| | Current | 1-Mo. Ago | 12-Mo. Ago |
|---|---|---|---|
| High Yield Corporate | 363 | 310 | 384 |
| Investment Grade Corporate | 110 | 98 | 103 |




Source: Federal Reserve Bank