

February 2022

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 2/28/2022

## Global Overview

Global equity markets began the month of February facing concerns about the increased likelihood that global central banks would raise rates earlier than planned due to persistent and growing inflation from COVID-related supply chain disruptions. Anxiety over inflation was further exacerbated later in February when, after months of military build-up, Russian President Vladimir Putin initiated a full-scale invasion of Ukraine, vowing to replace the Ukrainian government. As a result, commodity prices across the globe soared as Russia is a major commodity producer and globally accounts for 13% of oil production, 17% of natural gas production, 10% of global wheat production, 10% of Aluminum production, 28% of Nickel production, and is also a major producer of fertilizer and a number of precious metals. The invasion caused increased uncertainty as domestic, developed markets, and emerging markets sold off during the month. All broad based markets sold off in February with the S&P 500 Index down 3.0%, the MSCI EAFE Index down 1.8%, and MSCI EM Index down 3.0%.

## U.S. Markets & Economy

As the domestic equity market was just beginning to accept the likelihood of persistent inflation causing interest rates to rise this year, Russia steps in with plans to takeover Ukraine causing extreme commodity price spikes to come to the forefront. The Bloomberg Commodity Index jumped 6.2% in February and 15.6% year-to-date. The majority of domestic equity indices witnessed negative returns except for small cap equities.

Although the market focused on the increasing energy prices, the U.S. economy continued to experience strong economic data as ISM Manufacturing PMI rose for a second straight month to 58.6 in February from 57.6 in January. Additionally, the U.S. labor market continued to improve with 678,000 jobs added in February compared to the consensus expectation of 400,000, the unemployment rate dropped to 3.8% from 4% in January, and the labor force participation rate climbed to 62.3% in February, which is the highest level since March 2020. In the wake of inflation concerns in the headlines, small value continued to outperform growth as the Russell 2000 Value Index returned 1.7% in February (-4.3% year-to-date) versus the Russell 2000 Growth's 0.4% return in February (-13.0% year-to-date).

Fixed income markets began to reflect persistent inflation and an expectation of the Fed hiking interest rates six times in 2022. However, sentiment quickly changed with the expectation of a 50 bps rate in March going from an 80% chance to a 20% chance after Russia invaded Ukraine in late February. Now the Fed is having to consider whether the 35% increase in oil prices in February could cause consumers to reallocate their disposable income and thereby result in a declining GDP in the coming quarters. As a result, interest rates across the curve increased, especially on the short end as the two-year Treasury Note increased 25 bps to yield 1.43% on February 28<sup>th</sup> versus 1.18% on January 31, 2022. Consequently, the Bloomberg U.S. Aggregate Bond Index declined 1.1% during the month, and year-to-date has fallen 3.3%. Given the change in sentiment, the three month Treasury Bill Index was the only positive returning fixed income index, with a positive return of 0.01% in February and 0.01% year-to-date.

## International Markets & Economy

International markets were also affected by the uncertainty brought on by the Russian invasion of Ukraine. Although the Eurozone's unemployment rate fell to 7%, which is a record low since the EU's inception, and wage growth rose just 1.4% in the fourth quarter of 2021, their headline inflation reached 5.1% year-over-year, with more than 50% of

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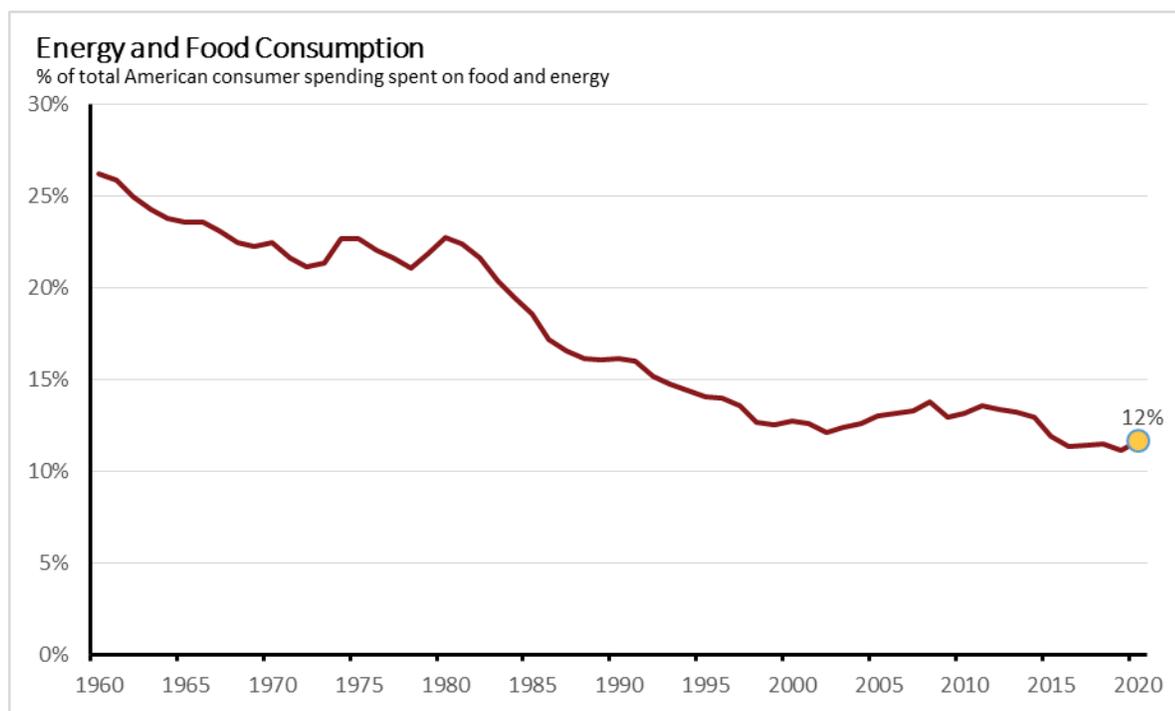
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that being the result of energy inflation. The anticipation of disrupted Russian commodity exports has intensified the increase since 25% of the EU's oil is imported from Russia along with 40% of its natural gas. As a result, the MSCI EAFE Index lost 1.8% in February and is down 6.5% year-to-date. Although China's energy imports from Russia have not been affected by the invasion of Ukraine, and China is starting to see signs of economic expansion in country's manufacturing PMI reading, the geopolitical uncertainty in itself has caused Chinese markets to decline due to risk-aversion by investors across the globe. The MSCI EM Index fell 3.0% during the month with a loss of 4.8% year-to-date. The MSCI China Index lost 3.0% during the month with a loss of 3.0% year-to-date.

## In the News

With all the discussion regarding global headline inflation reaching historically high levels on a year-to-date basis, it might be of interest to take a step back and get a closer look at the most volatile component of recent inflation, which is the cost of energy and food. Although the cost of energy, represented by the WTI oil, increased in excess of 35% during February, when you take into consideration what percentage energy and food consumption represents of American's total discretionary income, it has actually declined over the years. As can be seen in the Chart of the Month below, the cost of energy and food consumption has dropped from an average of 23% of total discretionary income in 1960's and 1970's to the current 12%. The majority of this decline has been the result of increased globalization in the early 1990's. The U.S. has the further benefit over Europe of being close to energy independent, which reduces the impact of geopolitical risks such as Russia invading Ukraine.

## Chart of the Month



Source: U.S. Bureau of Economic Analysis and JP Morgan

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(2.53)	(3.74)	(7.69)	10.74	14.44	12.05	10.73
	Bloomberg US Agg Bond TR USD	(1.12)	(3.49)	(3.25)	(2.64)	3.30	2.71	2.47
	Russell 3000 TR USD	(2.52)	(4.64)	(8.25)	12.29	17.56	14.68	14.27
	DJ Industrial Average TR USD	(3.29)	(1.25)	(6.43)	11.59	11.72	12.71	12.74
	NASDAQ Composite PR USD	(3.43)	(11.50)	(12.10)	4.24	22.22	18.74	16.57
	MSCI EAFE NR USD	(1.77)	(1.73)	(6.52)	2.83	7.78	7.16	6.15
	FTSE Treasury Bill 3 Mon USD	0.01	0.02	0.01	0.05	0.83	1.10	0.60
	Bloomberg Commodity TR USD	6.23	19.63	15.56	34.43	12.89	6.63	(1.94)
Domestic Equities	S&P 500 TR USD	(2.99)	(3.89)	(8.01)	16.39	18.24	15.17	14.59
	S&P MidCap 400 TR	1.11	(1.41)	(6.18)	7.98	13.40	10.71	12.26
	S&P SmallCap 600 TR USD	1.40	(1.71)	(5.97)	4.22	12.17	10.78	12.84
	Russell 1000 TR USD	(2.74)	(4.51)	(8.23)	13.72	18.08	15.07	14.51
	Russell 1000 Growth TR USD	(4.25)	(10.61)	(12.47)	12.55	23.18	20.24	16.97
	Russell 1000 Value TR USD	(1.16)	2.63	(3.46)	14.99	12.22	9.45	11.71
	Russell Mid Cap TR USD	(0.72)	(4.28)	(8.03)	7.07	14.25	12.02	12.82
	Russell Mid Cap Growth TR USD	(1.21)	(13.66)	(13.96)	(4.32)	14.71	14.86	13.59
	Russell Mid Cap Value TR USD	(0.47)	1.27	(4.72)	13.75	12.74	9.18	11.93
	Russell 2000 TR USD	1.07	(6.62)	(8.66)	(6.01)	10.50	9.50	11.18
	Russell 2000 Growth TR USD	0.44	(12.64)	(13.03)	(17.40)	9.22	10.49	11.38
	Russell 2000 Value TR USD	1.65	(0.37)	(4.27)	6.63	10.91	7.97	10.66
International Equities	MSCI ACWI Ex USA NR USD	(1.98)	(1.69)	(5.59)	(0.40)	7.67	7.26	5.39
	MSCI EAFE NR USD	(1.77)	(1.73)	(6.52)	2.83	7.78	7.16	6.15
	MSCI EAFE Growth NR USD	(2.22)	(8.70)	(12.48)	(0.95)	10.19	9.39	7.41
	MSCI EAFE Value NR USD	(1.36)	5.61	(0.33)	6.33	4.82	4.62	4.68
	MSCI Japan NR USD	(1.12)	(4.36)	(6.13)	(5.00)	7.22	6.13	6.66
	MSCI AC Asia Ex Japan NR USD	(2.35)	(4.08)	(5.38)	(14.44)	6.73	8.04	5.71
	MSCI Europe NR USD	(2.82)	(1.15)	(7.27)	6.82	8.49	7.79	6.22
	MSCI United Kingdom NR USD	0.79	9.11	1.69	16.60	5.66	5.82	4.34
	MSCI EAFE Small Cap NR USD	(1.27)	(4.50)	(8.49)	(1.48)	8.58	7.85	8.32
	MSCI EM NR USD	(2.99)	(3.04)	(4.83)	(10.69)	6.04	6.99	3.24
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	(1.17)	(3.90)	(3.58)	(2.56)	3.84	3.02	2.66
	Bloomberg US Govt/Credit Long TR USD	(2.54)	(8.07)	(7.32)	(2.80)	7.26	5.33	4.83
	Bloomberg US Govt/Credit Interm TR USD	(0.66)	(2.24)	(2.11)	(2.46)	2.80	2.32	2.06
	ICE BofA US High Yield TR USD	(0.90)	(1.81)	(3.62)	0.81	5.06	4.71	5.79
	Credit Suisse HY USD	(0.83)	(1.50)	(3.37)	1.02	4.91	4.52	5.59
	S&P/LSTA Leveraged Loan TR	(0.51)	0.49	(0.15)	3.20	4.15	4.02	4.37
	FTSE WGBI NonUSD USD	(1.27)	(4.17)	(3.53)	(9.30)	0.34	1.59	(0.10)
	Bloomberg Gbl Agg Ex USD TR USD	(1.11)	(3.11)	(3.04)	(7.14)	1.14	1.99	0.30
REITs	FTSE Nareit All REITs TR	(3.92)	(3.19)	(11.33)	20.55	10.12	8.46	10.07
	Wilshire US REIT TR USD	(3.34)	(2.10)	(10.04)	26.69	10.65	7.99	9.73

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

Source: Morningstar

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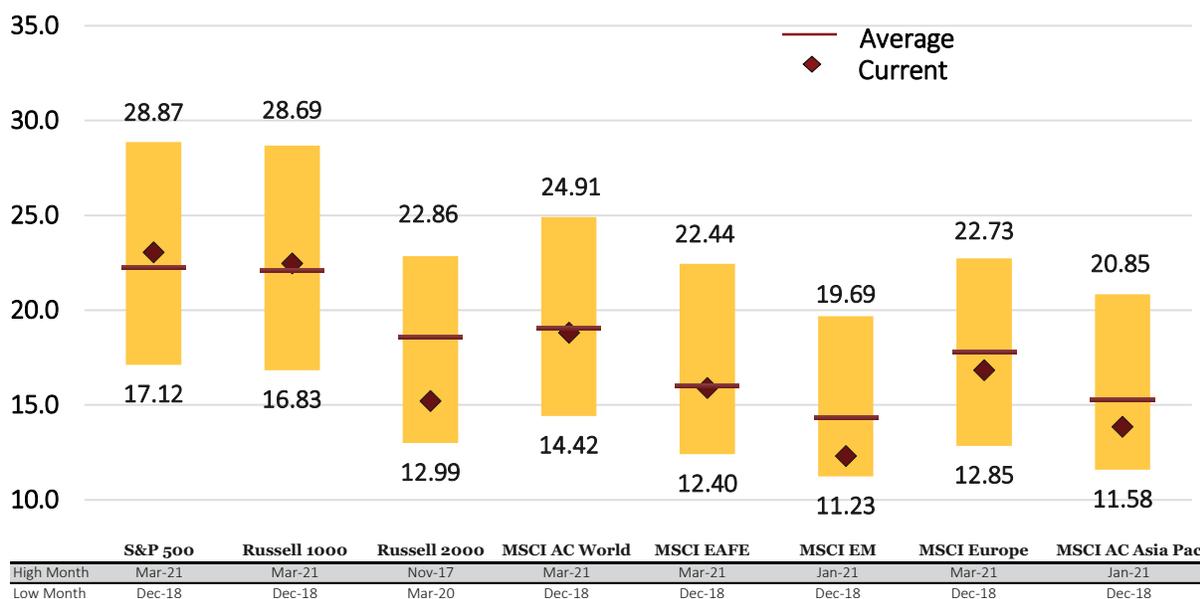
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2022 <sup>1</sup>	2023 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	7.00	3.70	2.40	4.00	1.72	-	-	6.00
<b>China</b>	1.60	5.10	5.10	5.10	2.80	6.32	6.45	1.20
<b>Japan</b>	1.30	3.40	1.10	2.70	0.18	115.62	106.22	0.20
<b>United Kingdom</b>	1.00	4.70	2.10	4.10	1.31	1.34	1.41	4.40
<b>Euro Area</b>	0.30	4.30	2.50	6.80	0.53	1.13	1.22	2.70
<b>Germany</b>	-0.30	4.10	2.40	5.10	0.04	1.13	1.22	3.70
<b>France</b>	0.70	4.20	2.10	7.40	0.39	1.13	1.22	1.60
<b>Italy</b>	0.60	4.60	2.60	9.00	1.43	1.13	1.22	1.50
<b>Canada</b>	1.60	3.90	2.80	8.80	1.82	1.27	1.25	4.30
<b>India</b>	12.70	8.10	5.50	8.00	6.81	74.41	73.11	5.60
<b>Mexico</b>	0.00	3.30	2.50	3.70	7.98	20.42	20.89	6.21
<b>Brazil</b>	-0.10	1.40	2.10	11.33	11.08	5.15	5.49	7.97

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

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

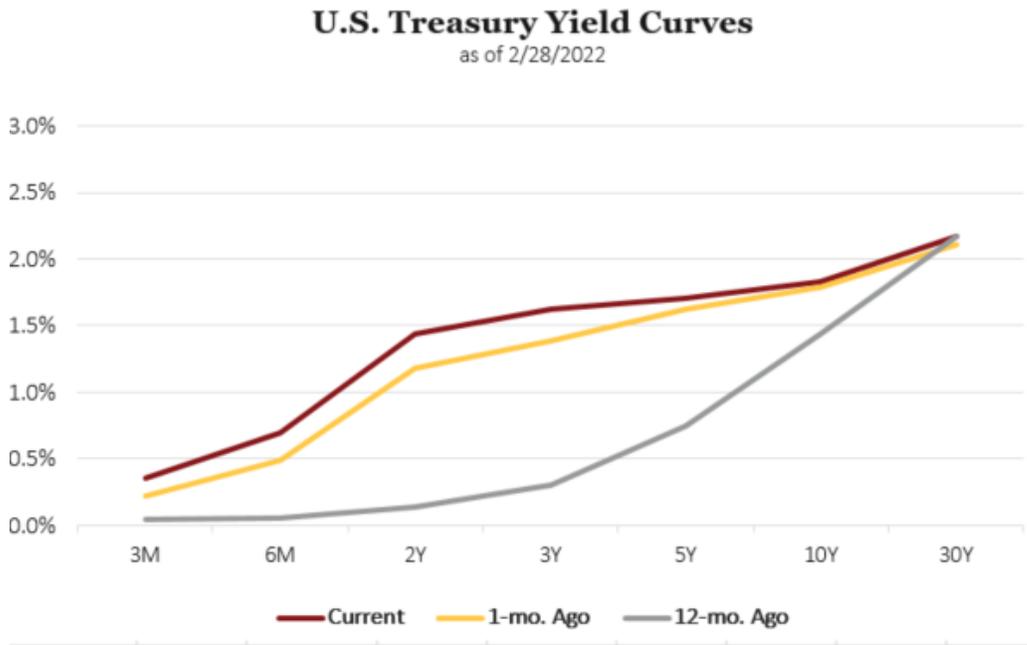
3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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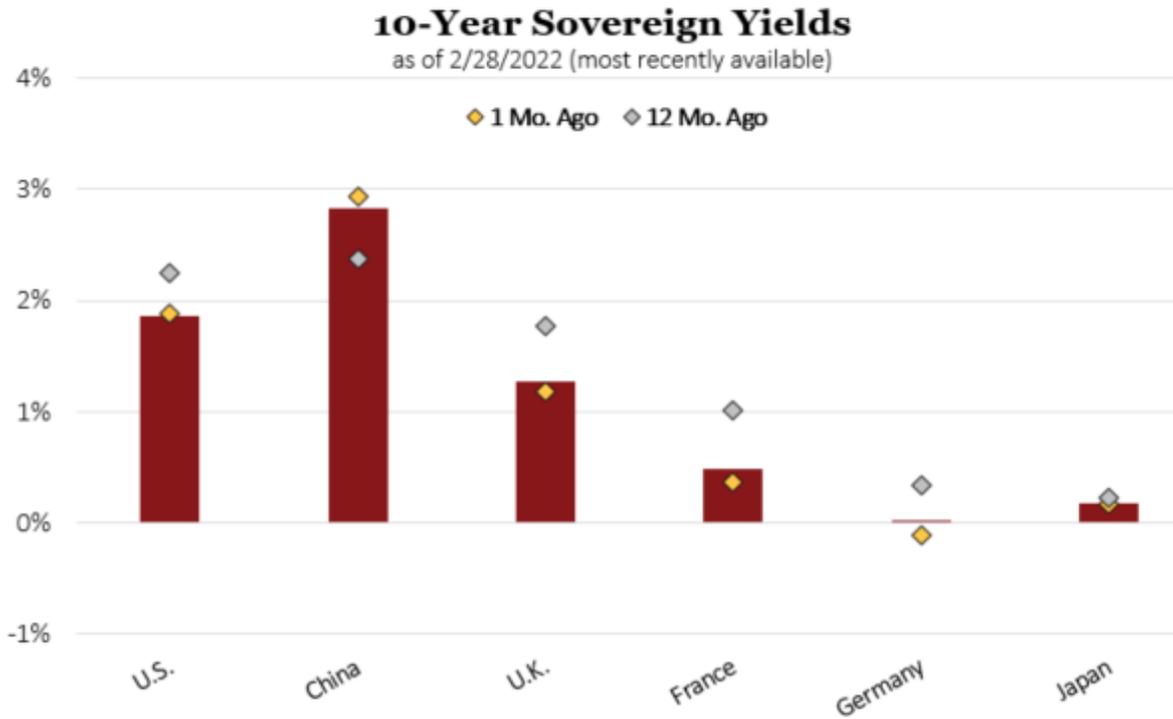
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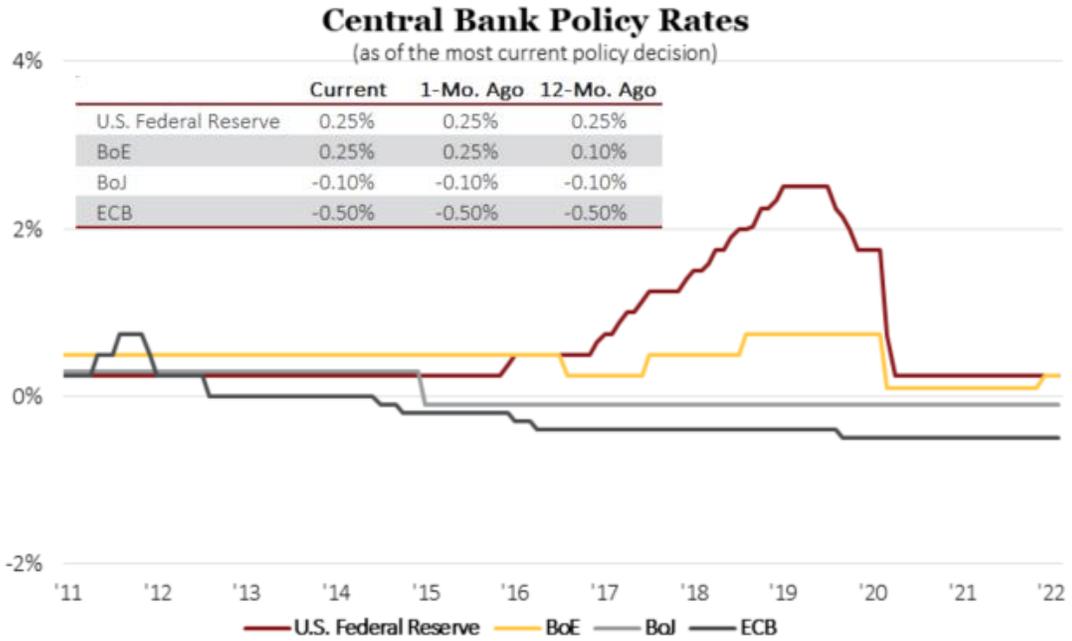
Source: Federal Reserve Bank



Source: Trading Economics

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



Source: Federal Reserve Bank