

*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

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*A Message from your MEMBERS Financial Services Team*

*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.<sup>1</sup>

## 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.<sup>2</sup>

## 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.<sup>3,4</sup>

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).<sup>5</sup>

## 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.

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### 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.*

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## World Markets

Overseas markets rebounded in March, with the MSCI-EAFE Index gaining 1.15 percent.<sup>6</sup>

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.<sup>7</sup>

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.<sup>8</sup>

## 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.<sup>9</sup>

**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.<sup>10</sup>

**Retail Sales:** Retail sales rose 0.3 percent, a deceleration from January's increase of 4.9 percent.<sup>11</sup>

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

**Housing:** Housing starts rose 6.8 percent from January levels and were 22.0 percent higher versus February 2021.<sup>13</sup>

Existing home sales fell 7.2 percent as mortgage rates rose, and the median sales price jumped 15 percent from February 2021.<sup>14</sup>

New home sales slipped 2.0 percent from January's and came in 6.2 percent lower year-over-year.<sup>15</sup>

**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.<sup>16</sup>

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

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#### QUOTE OF THE MONTH



*“If a window of opportunity appears, don't pull down the shade.”*

TOM PETERS

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## 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.<sup>18</sup>

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.

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## 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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MEMBERS Financial Services may be reached at 615-371-3737 or  
MembersFinancial@southeastfinancial.org  
SoutheastFinancial.org

### **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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Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYSE) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalization in the FTSE Developed Europe Index. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. Established in January 1980, the All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The FTSE TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprising 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting, or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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