Despite Inflation, Economic Backdrop Remains Favorable

Global equities experienced volatility throughout March, though a late rally softened some of the sharper losses from earlier in the month. The volatility of recent months continued, driven by geopolitical events that we believe are unlikely to dissipate soon, a more hawkish Federal Reserve (Fed) and higher prices. As expected, the Federal Open Market Committee raised the federal funds rate 25 basis points at its March meeting and indicated that further increases will be needed to return inflation to its 2% goal. Chair Jerome Powell reiterated the central bank's commitment to curbing inflation, signaling that coming rate increases could be larger if warranted.

Despite headwinds, the general economic backdrop remains favorable, notes Raymond James Chief Investment Officer Larry Adam. U.S. consumers, flush with cash, continue to spend despite rising prices; manufacturing and business spending remain healthy; and the labor market remains robust.

The broad-market S&P 500 ended the month up 3.58% and the Dow Jones Industrial Average is up 2.32%, just 5.55% and 4.27% respectively off their record highs. Let's look at the numbers for the first quarter:

	12/31/21 Close	3/31/22 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	36,338.30	34,678.35	-1,659.95	-4.57%
NASDAQ	15,644.97	14,220.52	-1,424.45	-9.10%
S&P 500	4,766.18	4,530.41	-235.77	-4.95%
MSCI EAFE	2,336.07	2,204.09	-131.98	-5.65%
Russell 2000	2,245.31	2,070.13	-175.18	-7.80%
Bloomberg Aggregate Bond	2,355.14	2,213.93	-141.21	-6.00%

Performance reflects price returns as of market close on March 31, 2022.
MSCI and Bloomberg Barclays Aggregate Bond performance reflect March 30, 2022, closing values.

Oil's outsized impact

The Russian invasion of Ukraine has lifted oil prices globally, likely dampening the pace of growth in the near term, explains Chief Economist Scott Brown. As a result, inflation has remained elevated, reflecting higher energy prices, ongoing supply and demand imbalances related to the pandemic, and broader price pressures. The potential consumer impact drove Washington policymakers to focus on domestic economic policy, which may offer support for a reconciliation bill that invests in broad domestic energy production and enhances domestic manufacturing capability.

The war serves as a stark reminder of the importance of energy security, particularly in Europe, which imports one-third of its oil and gas from Russia. We believe that the need for a more viable long-term strategy should reinforce a shift toward wind, solar, energy efficiency and electric mobility.

Bottom line

Overall, we believe that volatility tied to geopolitical risk is likely to persist over the medium term and adds complexity to the global economic outlook. Despite uncertainty, the U.S. economy looks to have room to grow, and higher equity prices seem likely. Earnings trends remain solid and valuation multiples have become more compelling. In addition, we believe that higher Treasury rates coupled with wide spreads and increased municipal/Treasury ratios should bode well for income buyers in both the corporate and municipal markets. We are constructive on equities and believe investors should view temporary choppiness as a buying opportunity.

As always, I'll be sure to keep my eyes on the markets and relay anything relevant. If you have any questions, please feel free to reach out at your convenience. Thank you for your confidence in us.