RAYMOND JAMES®

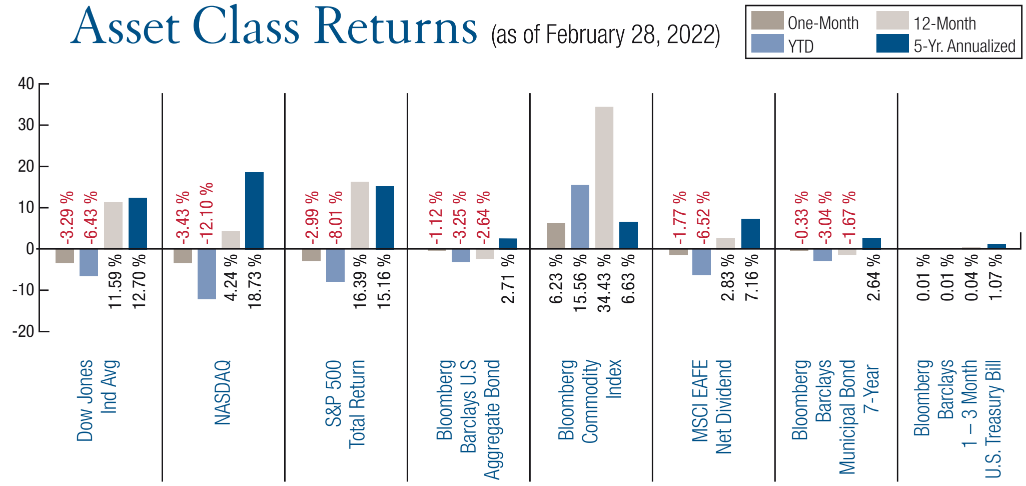
market update

From the Office of Jeff Sgroi, CFP®

"Keep Calm and Carry On"

– Britain's Ministry of Information, circa 1939

Asset Class Returns (as of February 28, 2022)



Material prepared by Raymond James for use by its Financial Advisors

Market & Economic Synopsis

- The Federal Open Market Committee (aka, the Fed) raised rates by 25 basis points in their March 16th meeting, as was widely anticipated. Additional rate hikes are expected throughout 2022.
- Crude oil reaches prices not seen since 2014, as geopolitical pressures, increasing demand, and shipping constraints all participate in escalating levels.
- Equity markets bounce back, on short-term basis, as the S&P 500 sees a historically strong performance the week of 03/14/22.
- The war in Ukraine enters its second month, as negotiations between Russia and Ukraine fail to provide resolution and millions are displaced from their homes.
- Nickel, natural gas, and wheat, along with other commodity prices, spike as supply disruption and recently-placed sanctions threaten global food supplies and manufacturing pipelines.
- Treasury yields break through to multi-year highs not seen since 2019; 10-year U.S. Treasury yield exceeds 2.30% in trades on 03/21/22.
- Inflation metrics indicate that for consecutive months in 2022, year-to-year prices rose more than 7%.

Market Update

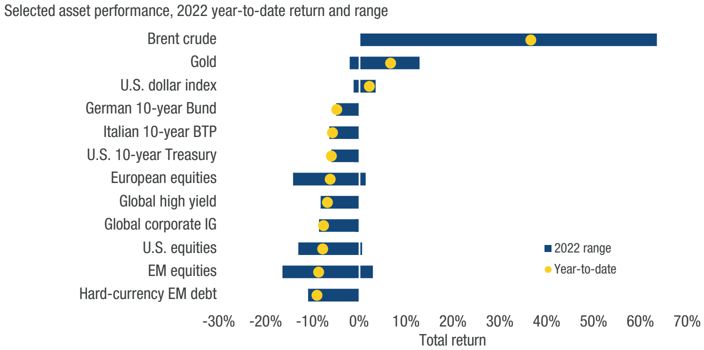
Because we are not yet a full quarter into 2022, it seems premature to do a YTD in review. However, given recent geopolitical events, market volatility, and general bedlam thus far, it is appropriate to summarize our current situation, and then delve into our outlook for the foreseeable future.

Assets in (YTD) Review

Let's begin with a snapshot of a dozen varied investments, asset classes, and commodities. The quick takeaway is that except for Brent crude, gold, and the U.S. dollar index, most major asset classes are down for 2022 YTD. Seeing these three positive asset classes higher in the face of the situation in Ukraine is to be expected — there is typically a rush to the U.S. dollar and gold during periods of market turmoil. What is somewhat atypical of the chart below is that the other nine asset classes are down for the YTD in lockstep. More specifically, we typically see U.S. Treasuries, or high-quality, fixed-income investments rally during equity sell-offs, in a "flight to quality". Furthermore, we have been in a fixed-income bull market since the early 1980s. To stray from positive returns in fixed income is something investors are not accustom to.

Assets in review

Selected asset performance, 2022 year-to-date return and range



Sources: BlackRock Investment Institute, with data from Refinitiv Datastream as of March 17, 2022

For context, however, this is a short-term sample size (11 weeks into 2022); the dispersion of returns is likely to occur between now and year end.

Ukraine Conflict

We are all united in our compassion for the people of Ukraine. Local reports indicate that over 10-million people in Ukraine have been displaced from their homes. It can be difficult to shift toward numbers and markets while these events are happening, although it is imperative to maintain perspective and address what we are able to manage from here.

What I believe will surprise many investors is how resilient the U.S. stock markets have been in the face of past geopolitical events.

Equity Performance around Major Geopolitical Events

		S&P 500 Returns			
EVENT	DATE	1 DAY	1 WEEK	1 MONTH	MAX DRAWDOWN
Cuban missile crisis	10/16/62	-0.3%	-0.7%	-6.6%	-6.3%
Golf of Tonkin resolution	8/5/64	0.2%	-0.8%	0.3%	-0.9%
Six-day war	6/5/67	-1.5%	0.5%	2.5%	-0.8%
October war	10/6/73	1.3%	1.7%	2.8%	-43.3%
Iranian hostage crisis	11/4/79	-0.1%	-0.7%	-1.0%	-4.2%
Soviet invasion of Afghanistan	12/24/79	0.1%	0.2%	-1.7%	-8.8%
Bombing of Libya	4/15/86	0.2%	2.1%	2.2%	-3.3%
First Gulf War	8/2/90	-1.1%	-3.0%	-4.4%	-15.9%
Kosovo bombing	3/22/99	-0.2%	-2.9%	0.8%	-3.8%
9/11 attacks	9/11/01	0.6%	-4.3%	-11.1%	-27.0%
Iraq war	3/20/03	0.2%	2.5%	-0.6%	-3.1%
Arab spring	1/25/11	0.0%	0.4%	1.3%	-14.9%
Ukraine conflict	3/14/14	-0.3%	0.7%	1.1%	-1.4%
Airstrike on Syrian airbase	4/7/17	-0.1%	0.0%	-0.4%	-1.1%
North Korean missile crisis	7/28/17	-0.1%	-0.2%	0.1%	-1.9%
Saudi oil struck by drones	9/14/19	-0.1%	-0.4%	-0.6%	-25.6%
Average		-0.1%	-0.3%	-1.0%	-10.1%
Median		-0.1%	-0.1%	-0.2%	-4.0%

Source: Bloomberg and UBS

Dating back to the Cuban missile crisis in 1962, both average and median returns on a 1-day, 1-week, and 1-month period following the event have been essentially flat. Furthermore, the average maximum drawdown has been around 10%. We have nearly hit that level since the invasion of Ukraine in February. Additional studies show that the domestic equity market (S&P 500), and both development and emerging equity markets are typically higher as soon as three months after the initial event.

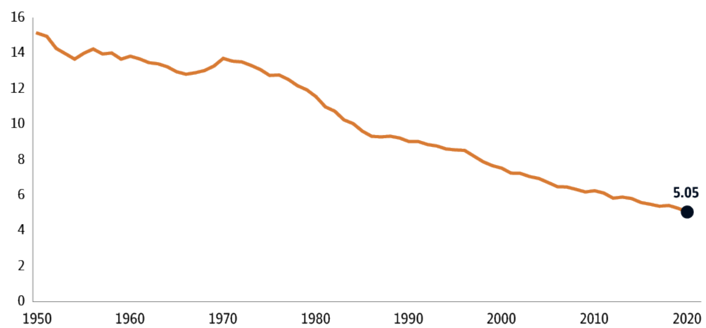
Certainly, much is hinging on Putin's next move. History has demonstrated that in many cases, markets have absorbed short-term blows caused by similar geopolitical activity.

Thoughts on Energy

Oil prices affect us all — regardless of what we drive, how we work, and where we live. Because transportation costs affect our food prices, goods we purchase, and much more, oil and gas price fluctuations are ubiquitous.

Energy Intensity

US Energy Consumption per Real GDP Dollar (Thousand BTU)



Source: US Energy Information Administration and Goldman Sachs Asset Management

Since 1950, we have seen a consistent decline in U.S. Energy Consumption per Real GDP Dollar. Our friends at GW&K Investment Management explain the ability to handle higher oil prices in two ways:

> *"First, the amount of energy needed to produce a unit of GDP has declined by about two-thirds since 1970, thanks to greater efficiency and shifts in the composition of the economy toward service industries (chart above). Second, thanks to the shale oil revolution, America has become energy independent. That means that rising energy prices cause a transfer of income from energy consumers to energy producers, which helps limit the negative effect on the overall economy."*

May the spike in energy prices continue to feed real inflation concerns? Absolutely. However, we may be able to better handle this exogenous shock to the economy than we could have in the past.

Inflation...

And on the note of higher prices… the Consumer Price Index (CPI) is the most widely-used measure of inflation in the United States. Over the past two months, the CPI figures, which measure cost of housing, food, fuel, and other common household expenses, have risen to levels not seen since 1982. Many factors feed inflation, including monetary supply, wage movement, and prices of raw materials and commodities.

The Federal Reserve, among other responsibilities, is charged with managing the cost of goods and services in the United States (i.e., ensuring inflation is not too high or too low, but just right). For years, 2.0%–2.5% has been the Fed's target inflation rate.

To combat high inflation, the Fed is using what tools it has at its disposal, including the Fed Funds Rate. As recently as last week, the Fed raised this rate by 0.25%. Akin to knee-jerk reactions from the market surrounding geopolitical events, many investors expect markets to sell off when the Fed raises this rate. Understandably so, since higher interest rates are synonymous with slower economic activity. As the chart below shows, however, both U.S. Treasury markets and the S&P 500 often perform favorably in the one-, two- and three-year periods following the Fed tightening.

Fed Tightening Periods: U.S. Bond and Stock Returns 1, 2, and 3 Years Following the Start of Fed Tightening

	1-year forward		2-years forward		3-years forward	
Fed Tightening Period	**10-Year UST**	**S&P 500**	**10-Year UST**	**S&P 500**	**10-Year UST**	**S&P 500**
June 1947 - April 1953	-0.7	16.2	1.6	2.3	1.4	11.8
June 1954 - October 1957	-0.6	46.7	0.3	32.1	-0.7	22.2
May 1958 - November 1959	-6.8	37.6	-1.4	16.3	2.0	18.6
July 1961 - November 1966	3.1	-10.0	3.7	5.1	3.4	11.0
July 1967 - August 1969	3.9	6.4	0.3	1.5	0.9	-3.1
March 1971 -August 1971	1.8	10.2	1.8	8.6	1.9	0.9
February 1972 - September 1973	1.9	7.8	3.1	-2.0	3.5	-5.1
February 1974 - July 1974	4.5	-11.1	5.2	6.4	6.9	5.6
January 1977 - May 1980	3.6	-8.1	2.5	4.1	-0.2	9.4
July 1980 - June 1981	-11.8	13.0	4.0	-1.0	11.0	16.0
February 1983 -August 1984	-0.6	10.8	6.5	15.7	17.6	20.5
March 1988 - March 1989	4.0	18.1	8.7	18.7	9.8	17.3
December 1993 - April 1995	-7.9	1.3	7.0	18.1	4.7	19.7
January 1999 - July 2000	-9.5	10.3	2.6	4.6	3.2	-2.8
June 2004 - July 2006	9.7	6.3	1.9	7.5	3.0	11.7
November 2015 - January 2019	-0.3	8.1	0.7	15.2	-0.4	12.2
Average	**-0.4**	**10.2**	**3.0**	**9.6**	**4.2**	**10.4**
Average - High Inflation	**-1.1**	**2.5**	**3.3**	**2.9**	**4.8**	**10.7**
Average - Low Inflation	**-1.8**	**13.8**	**1.8**	**14.2**	**1.4**	**10.7**

Source: GW&K Investment Management, GFD, S&P, Bloomberg, Macrobond

Higher interest rates are often indicative of a strengthening economy. Higher rates may lend themselves to additional investment earnings as well. Furthermore, as we have seen over the past year, markets have by and large drifted in expectation of the Fed's moves and allowed rates to naturally shift higher through free-market forces. Goldman Sachs, in their *Weekly Market Monitor* notes, "We believe significant policy room exists before rates challenge equity returns." Certainly, this is bullish sentiment.

In summary, we recognize the first few months of 2022 have been a challenge. It has been some time since we started a year start with comparable market activity. We have conviction that between coming off all-time highs in the equity markets, and unforeseeable global events, we will continue through a period of uncertainty, which is often a challenge for markets and investors alike. Our research and studies, though, indicate better times are ahead for those who exercise patience and discipline.

Thank you for your confidence and trust in us — we take our responsibility seriously and look forward to our next conversation with you!

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