Global Market Commentary: First Quarter 2022

### Markets Have Worst Quarter Since 1Q2020

Global equity markets had a volatile first quarter, ending down for the quarter, as March was not enough to make up for the poor returns from January and February.

Additionally, the bond market suffered its worst quarter since 1980.

For the first quarter of 2022:

* The DJIA was down 5.2%
* The S&P 500 was down 5.5%
* NASDAQ was down 10.2%
* The Russell 2000 was down 8.9%

The themes that drove market performance in the first quarter were the same themes that drove markets toward the end of last year. However, in late February and throughout all of March, Wall Street dealt with the invasion of Ukraine by Russia and its impact on global markets.

Volatility and oil prices spiked this quarter, driven by multiple issues, including Russia’s invasion, rising inflation, supply chain issues, and the Federal Reserve’s timing and size of rate hikes (we saw a 25 basis point hike in March).

The other themes were volatile consumer confidence, continued red-hot housing prices, high GDP growth numbers, and corporate earnings that came in better than expected.

Further, we saw that:

* Volatility, as measured by the VIX, trended up most of the month, more than doubling to a high of 36 on March 7th, before retreating to come to rest marginally higher than where it began the month.
* West Texas Intermediate crude made a big move in the first quarter, starting at $75/barrel and ending the quarter at over $100. For perspective, WTI started 2021 at $48/barrel.

### Market Performance Around the World

Investors were unhappy with the quarterly performance around the world, as 35 of the 36 developed markets tracked by MSCI were negative for the first quarter of 2022, with only MSCI Pacific ex-Japan having a positive return. For the 40 developing markets tracked by MSCI, 26 of them were negative, with many posting staggering losses, including MSCI Eastern Europe that dropped almost 60%.

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| Index Returns | 1Q2022 |
| MSCI EAFE | -6.61% |
| MSCI EURO | -11.34% |
| MSCI NORTH AMERICA | -5.11% |
| MSCI WORLD | -5.53% |
| MSCI WORLD EX-USA | -5.49% |

*Source: MSCI. Past performance cannot guarantee future results*

**March Could Not Lift the Entire Quarter**

U.S. equity markets rebounded and ended the month of March in positive territory. Yet, it was still not enough to overcome the biggest two-month drop (January and February) since March 2020.

For the month of March:

* The DJIA was up 4.2%;
* The S&P 500 was up 5.2%;
* NASDAQ was up 5.1%; and
* The Russell 2000 was up 3.1%.

### The Fed Increases Rates

The dominant theme this month (besides Russia/Ukraine) revolved around whether the Fed might need to raise short-term interest rates more quickly and more often, eating into future profits, especially within the high-flying tech names.

Then, at the March meeting, the Federal Reserve moved its fed funds target rate from near zero to a range of 0.25% to 0.50%. It was the first rate hike since 2018.

The Fed also released the so-called “dot plot,” which shows where individual Fed officials expect interest rates to be.

Given the surge in inflation numbers, the majority of Fed officials now expect seven hikes in 2022, four in 2023, and none for 2024. (In other words, there could be a rate hike at every remaining Fed meeting this year and at half the meetings next year.)

If this comes true, it would be higher than the Fed’s estimate of the long-run neutral rate, (which is 2%), and would suggest a more hawkish policy that could be more restrictive to growth.

Interestingly, when the Fed raised rates 25 basis points and released its “dot plot,” stocks rallied, suggesting that Wall Street appreciates the path that has been outlined.

### Moving Forward

The war in Ukraine continues to be an uncertain factor for markets. However, geopolitical issues have often led to sharp but short-term impacts on markets.

Whether it’s inflation concerns or the war, it’s important to avoid the risk of panic selling and making an emotional decision that will ultimately hurt the long-term health of your portfolio and your financial situation.

As always, the best approach is to remain well-diversified and maintain an appropriate long-term allocation given your goals.

***Sources***[***: conference-board.org***](https://www.conference-board.org/topics/consumer-confidence)***;*** [***bea.gov;***](https://www.bea.gov/news/2022/gross-domestic-product-third-estimate-corporate-profits-and-gdp-industry-fourth-quarter)[***census.gov***](https://www.census.gov/economic-indicators/#home_sales)***;*** [***msci.com***](https://www.msci.com/end-of-day-data-search)***;*** [***fidelity.com***](https://eresearch.fidelity.com/eresearch/markets_sectors/sectors/si_performance.jhtml?tab=siperformance)***;*** [***nasdaq.com***](https://www.nasdaq.com/market-activity/index/ixic)***;*** [***wsj.com;***](https://www.wsj.com/market-data/stocks/us/indexes)[***morningstar.com***](http://quotes.morningstar.com/indexquote/quote.html?t=XIUSA000MC&region=usa&culture=en-US)***;*** [***bea.gov***](https://www.bea.gov/news/2022/personal-income-and-outlays-february-2022)