



Beacon 'Pointe of View'
April 2022

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The Quick Facts

- A historically rough quarter for stock and bond investors
- U.S. stocks post the biggest quarterly decline in two years
- Bond market suffers worst quarter in more than 40 years
- Energy, metals, and commodities continue to rise at a historic pace
- Markets are now pricing in eight more 25bps rate hikes by the end of 2022 (a total of +200bps)

Stocks, sovereign bonds, and corporate credit all got hammered in the year's first quarter amid concerns about a growth slowdown as central banks move to tackle inflation by withdrawing stimulus.

Across equity and fixed-income markets broadly, the "least-bad" performance among U.S. assets were declines of 3.0% in U.S. TIPS (Treasury inflation-protected securities), 4.6% in the S&P 500 and 4.8% in High Yield credit. They were followed by a 5.9% fall in the U.S. Aggregate, a 6.2% drop in the Muni index, and a 7.7% slide in Investment Grade credit.

Numerous periods have been far worse for specific asset classes. This quarter's retreat in equities pales in comparison to the 30+% correction at the start of 2020. But viewed as a whole – and leaving out commodities, which soared – 1Q 2022 has been a rough one for investors, with nowhere to hide.

For the quarter, the S&P 500 fell 4.6% and the Nasdaq declined 8.9%. March was a bit of a bright spot, however, as the major averages enjoyed a solid two-week rally in the back half of the month. The S&P 500 and Nasdaq rose 3.7% and 3.5% in March, respectively.

Defensive sectors such as Consumer Staples and Utilities were among the best performing sectors; they are viewed as strong plays in a risk-off environment. Nine out of eleven sectors finished in the red in 1Q 2022. Energy (+39.0%) had its best quarter since its inception in 1989 on the back of soaring oil and gas prices, followed by Utilities (+4.7%). The defensive Consumer Staples (-1.1%) held up relatively well, as did the rate-sensitive Financials (-1.5%).

March Asset Class Performance

Asset Description	Level	1m	QTD	YTD	1yr	3yr
S&P 500	4,530	3.7	(4.6)	(4.6)	15.6	68.1
U.S. Govt 10 yr	2.34	1.83	1.51	1.51	1.74	2.41
VIX	20.6	30.2	17.2	17.2	19.4	13.7
Gold Spot \$/Oz	1,937	1.5	5.9	5.9	13.5	49.9
WTI Crude Oil \$/bbl.	100	7.3	35.6	35.6	82.3	83.4

As of March 31, 2022. Source: Bloomberg, Beacon Pointe.



With global economies still adjusting to Covid's impact on supply chains and the shift in consumer spending, Russia's invasion of Ukraine at the end of February added fuel to the inflation fire. Commodities and rates accelerated higher from existing uptrends as strict sanctions were imposed on Russia's economy and financial system. Ironically, most U.S. equity benchmarks bottomed within a day of the Russian invasion.

Soaring rates had the greatest negative impact on long-duration Growth stocks. In 1Q, the large-cap Russell 1000 Value index outperformed the Russell 1000 Growth index by 8.3%. This is Value's strongest outperformance over growth since the 2000-2002 era.

The ESG segment of the market as measured by the MSCI USA ESG Select Index was down 8.6% for 1Q 2022, approximately 4.0% worse than the S&P 500 for the period, with ~90% of the underperformance attributable to stock selection and the remainder to sector allocation. However, over the last 3 years, the ESG index is up 71.8% and approximately 3.7% ahead of the S&P 500 on a total return basis.

Outside of the U.S., the MSCI Emerging Markets Index posted a 7.0% loss in 1Q 2022. Russia was reclassified in March by MSCI from Emerging Markets (EM) status to Stand-alone Markets status. At the onset of the global financial crisis in 2008, Russia was the fourth-largest EM country, behind China, South Korea and Brazil. At the start of the year, Russia accounted for just under 4% of the index. Today, Chinese, Taiwanese and Indian firms account for close to 60% of the index. The MSCI EAFE (Europe, Australasia and the Far East) index was down 5.4% for the first quarter, underperforming the U.S. Large Cap equity benchmark by ~0.8% YTD.

On the Fixed Income side, 1Q 2022 was the worst quarter in more than 40 years as the Federal Reserve (the Fed) signaled that they were going to be more aggressive in removing policy accommodation. The benchmark high-grade U.S. Credit index fell 7.7% in the first quarter, equaling the slump of the global financial crisis. The first-quarter rout was widespread and focused on debt with higher duration, or sensitivity to interest rate moves.

Rates have been trending higher since October 2021, when the 2-year U.S. Treasury Yield, a common market barometer of the Fed's rate policy, broke higher from a Covid-period range. In the final week of March, both the 2x10 yield (the difference between 10yr and 2yr Treasury yields) and the 5x30 yield spreads inverted. While inversion is often associated with a recession, it is not a good timing signal as there is often a lag between 12 and 24 months before market tops and the onset of a recession. With the 2x10 yield spread essentially a flat 0.01% at the end of March, credit investors are implying that the Fed is going to increase rates high and fast enough to push the U.S. economy into a recession. At the start of 1Q, markets were pricing in three 25bps rate hikes for all of 2022. Markets are now expecting eight rate hikes implying a ~2.5% Federal Funds Rate by the end of 2022.

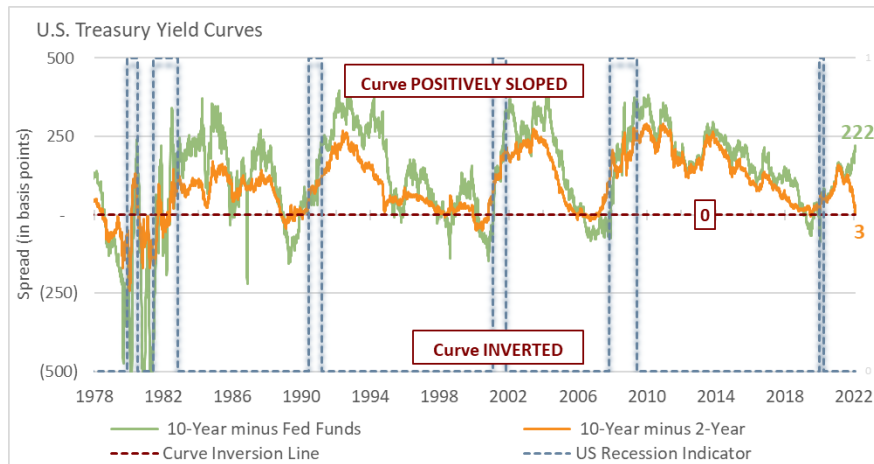
Market volatility saw the biggest spike since the Covid shock of March 2020 with the Russian invasion of Ukraine and an intraday high of 37.8 on February 24. The CBOE Volatility Index or VIX was already back down to a mild 20.6 at the end of the quarter. Interest rate volatility remains elevated, highlighting the difference between the stock and the bond markets when it comes to inflation – the stock market is relatively unconcerned.

Following a 27.1% gain in 2021, its best annual performance in 42 years, the Bloomberg Commodity Index advanced 25.5% in 1Q 2022. Gold was up both in March (+1.5%) and YTD (+5.9%), more likely as a disaster hedge than an inflation hedge. Oil prices (West Texas Intermediate, or WTI) jumped 7.3% in March, settling at \$100/bbl and are up 82.3% year-on-year. Bitcoin gained 9.9% in March, while Ethereum gained 17.0%. The two most popular currencies remain down for the year with a 1.2% and 10.5% decline, respectively.

At Beacon Pointe, we remain confident that our long-term themes and theses of "Financial Repression" and "Inflation Rates and Rotation" remain intact. While current economic data shows the U.S. economy remains strong, the surge in inflation and rates over 1Q could weigh on economic growth and impact corporate earnings. Corporate guidance on wage increases and margins will be a key focus during the upcoming 1Q earnings season. While Fixed Income had its worst quarter in forty years and the war in Ukraine continues with little visibility on a peace settlement, credit spreads have pulled back to pre-crisis levels, which typically bodes well for equities.

Chart of the Month – U.S. Treasury Yield Curve Spread

Investors are worrying that the spread between the 10-year and 2-year Treasury yield is signaling an upcoming recession. The 2y x 10y yield spread (the difference between 10yr and 2yr Treasury yields) has narrowed sharply since the start of the year from about 80bps to nearly flat at the end of March. When it falls to zero or turns negative (i.e., “inverts”) it is, at least historically, a warning sign that a recession could follow. On the other hand, the spread between the 10-year Treasury and the Federal Fund Rates (FF x 10y) has widened from below zero when Covid first hit in early 2020 to about 200bps in March 2022. The FF x 10y is one of the ten components of the Index of Leading Economic Indicators (LEI) and is signaling continued economic growth. The two yield curve spreads have rarely diverged the way they have this year, looking all the way back to the late 1970s. Why such a divergence? Because bond markets are pricing future rates hikes and implying that the Fed is “behind the curve” on raising interest rates.



As of March 31, 2022. Source: Bloomberg, Beacon Pointe.

Quote of the Month

“Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn’t, pays it.” – Albert Einstein



Major Asset Class Dashboard

Asset Description		Level	1m	QTD	YTD	1yr	3yr
Equity	S&P 500	4,530	3.7	(4.6)	(4.6)	15.6	68.1
	Communication Services	69	0.7	(11.2)	(11.2)	(5.4)	50.8
	Consumer Discretionary	185	4.4	(9.4)	(9.4)	10.7	67.3
	Consumer Staples	76	1.8	(1.1)	(1.1)	13.8	46.4
	Energy	76	9.3	39.0	39.0	62.9	38.3
	Financials	38	(0.1)	(1.5)	(1.5)	14.5	58.8
	Health Care	137	5.7	(2.5)	(2.5)	19.0	57.6
	Industrials	103	3.4	(2.4)	(2.4)	6.0	44.6
	Materials	88	6.1	(2.4)	(2.4)	13.8	68.7
	Real Estate	48	7.8	(6.2)	(6.2)	25.6	46.9
	Technology	159	3.3	(8.4)	(8.4)	20.6	121.7
	Utilities	74	10.3	4.7	4.7	19.8	40.9
	Nasdaq Composite	14,221	3.5	(8.9)	(8.9)	8.1	89.0
	Russell 3000 (All cap Index)	2,632	3.2	(5.3)	(5.3)	11.9	65.2
	Russell 2000 (Small cap Index)	2,070	1.2	(7.5)	(7.5)	(5.8)	39.4
Russell 1000 Value	1,635	2.8	(0.7)	(0.7)	11.6	44.3	
Russell 1000 Growth	2,791	3.9	(9.0)	(9.0)	15.0	88.8	
MSCI USA Extended ESG Select (ESG Index)	571	2.8	(8.6)	(8.6)	11.8	71.8	
MSCI ACWI (All Country World Index)	368	2.2	(5.4)	(5.4)	7.3	47.2	
MSCI EAFE (Europe, Australasia and the Far East Index)	2,182	0.7	(5.8)	(5.8)	1.7	27.3	
MSCI EM (Emerging Markets Index)	566	(2.3)	(7.0)	(7.0)	(11.4)	15.6	
Fixed Income	U.S. Govt 10 yr	2.34	1.83	1.51	1.51	1.74	2.41
	U.S. Govt 2 yr	2.33	1.43	0.73	0.73	0.16	2.26
	Municipal Bond Index	2.60	(3.2)	(6.2)	(6.2)	(4.5)	4.7
	U.S. Aggregate	2.92	(2.8)	(5.9)	(5.9)	(4.2)	5.2
	U.S. Corporate Investment Grade	3.60	(2.5)	(7.7)	(7.7)	(4.2)	9.4
	U.S. Corporate High Yield	6.01	(1.1)	(4.8)	(4.8)	(0.7)	14.4
	U.S. Treasury 10+ yr	2.55	(5.3)	(10.6)	(10.6)	(1.4)	10.1
	U.S. Treasury 1-3 yr	2.28	(1.4)	(2.5)	(2.5)	(3.0)	2.5
	U.S. TIPS	2.55	(1.9)	(3.0)	(3.0)	4.3	19.8
Miscellaneous	VIX	20.6	30.2	17.2	17.2	19.4	13.7
	Gold Spot \$/Oz	1,937	1.5	5.9	5.9	13.5	49.9
	WTI Crude Oil \$/bbl.	100	7.3	35.6	35.6	82.3	83.4
	Copper \$/lb.	475	6.7	6.7	6.7	19.6	59.4
	USD Index	98.3	1.7	2.8	2.8	5.4	1.1
	Bitcoin	45,768	9.9	(1.2)	(1.2)	(22.4)	1,018.2
	Ethereum	3,301	17.0	(10.5)	(10.5)	70.2	2,242.0
	HFR Global Hedge Fund Index	1,414	0.5	(1.4)	(1.4)	0.9	15.6

As of March 31, 2022. Source: Bloomberg, Beacon Pointe.

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