

MARKET UPDATES

[April 29, 2022: Recorded Leadership Discussion Featuring: Regions Chief Economist, Chief Market Strategist, and Director of Equity Research.](#)

[May 6, 2022: Join the upcoming live Regions Market Update.](#)

KEY OBSERVATIONS

Stocks: Tech Earnings Fail To Stem The Selling Tide; FOMC Meeting Looms Large For Markets This Week. Global equity markets began last week on shaky footing, falling sharply last Tuesday as investors positioned for the worst from mega-cap technology names set to report quarterly results over the coming days. Earnings reports were ultimately a mixed bag as investors cheered Microsoft and Meta Platforms (Facebook) but jeered weak guidance out of Apple and Amazon which spurred selling into the weekend with the S&P 500's 3.2% weekly decline entirely attributable to Friday's sell-off. Last week's volatility again highlights the difficulty market participants continue to have in determining what they are willing to pay for longer duration assets such as information technology stocks given a lack of clarity surrounding just how far global central banks will have to go when fighting persistently high inflation. While U.S. indices were decidedly weak, the MSCI Emerging Markets index eked out a 0.8% weekly gain. The MSCI China index ended the week 3.7% higher, those gains materializing on Friday as the Chinese government hinted at a less onerous regulatory environment for technology platforms moving forward. For the coming week, a challenging and volatile backdrop for stocks is likely to remain in place as uncertainty surrounding monetary policy normalization, inflation, and geopolitics dominates headlines, further weighing on decidedly 'bearish' investor sentiment and limiting risk appetite.

Bonds: Wide Trading Range For Long Bonds In Advance Of This Week's FOMC Meeting; Credit Spreads Under Stress. Long-term Treasury yields were volatile again last week with the 10-year yield, specifically, trading in a 20-basis point range before closing the week lower by just 1 basis point at 2.89%. Market participants will be fixated on FOMC Chair Jerome Powell's post-meeting press conference this Wednesday, and with a 50-basis point hike to the Fed funds rate already priced in, market participants will likely closely monitor comments related to the pace of balance sheet runoff and a timeline surrounding when the Committee expects that process to commence. Fed funds futures currently point toward at least three consecutive 50-basis point rate hikes between May and July, with a 50% or more likelihood of a fourth half-point hike in September after Chair Powell made remarks before the FOMC's quiet period regarding front-end loading rate hikes. A series of 50-basis point hikes may be in the cards as the FOMC takes its medicine as it attempts to regain lost credibility on the price stability front, but a 200-basis point increase in five months' time may prove to be too far, too fast for many on the FOMC and we would currently take the 'under' on a 2.7% Fed funds rate at year-end.

WHAT WE'RE WATCHING

- The Federal Open Market Committee (FOMC) kicks off a two-day meeting on Tuesday with a post-meeting press conference on Wednesday. The FOMC is expected to hike the Fed funds rate by 50 basis point, but it is Chair Jerome Powell's post-meeting press conference that will be closely dissected and will likely be market moving.
- Durable goods orders for March are released Tuesday and are expected to rise 0.8% in March over February after a 0.8% rise in February versus January.
- The Institute for Supply Management (ISM) releases its non-manufacturing report for April on Wednesday and the consensus expects a 58.5 reading, up marginally from 58.3 in March. A reading above 50 indicates that the non-manufacturing economy is generally expanding, below 50, generally declining.
- The April Nonfarm Payrolls is released on Friday and is expected to show 400k jobs were created during the month, down from 431k in March. The unemployment rate is expected to remain static month over month at 3.6%.

	Price/Yield		Total Return (%)				
	4/29/2022	1 Week	1 Month	Year to Date	1 Year	3 Years	5 Years
Dow Jones Industrial Average	32977.21	-2.47	-6.48	-8.73	-1.36	9.82	11.95
S&P 500	4131.93	-3.26	-10.70	-12.92	-0.50	13.88	13.65
NASDAQ	12334.64	-3.92	-15.60	-21.00	-11.83	15.72	16.39
Russell 2000 Index	1864.10	-3.94	-12.53	-16.69	-17.92	6.57	7.24
MSCI World ex US	2075.28	-0.64	-7.12	-10.86	-7.11	5.75	5.78
MSCI EM	1076.19	0.87	-5.06	-12.09	-19.07	2.49	4.69
Bloomberg US Aggregate	3.48	-0.01	-3.43	-9.50	-8.42	0.43	1.20
Bloomberg Global Aggregate	2.57	-0.97	-4.83	-11.30	-12.82	-1.01	0.33
Bloomberg US Corporate	4.31	-0.40	-5.04	-12.73	-10.32	0.99	1.97
Bloomberg 10-Year Muni	3.06	-0.21	-2.45	-8.72	-8.04	0.47	1.83
Bloomberg High Yield	6.98	-0.91	-3.26	-8.22	-5.19	2.85	3.69

	Price/Yield						
	4/29/2022	1 Week Ago	1 Month Ago	12/31/2021	1 Year Ago	3 Years Ago	5 Years Ago
SOFR (yield)	0.28	0.27	0.28	0.05	0.01	2.48	N/A
30 Year Mortgage (average rate)	5.41	5.29	4.91	2.88	3.11	4.06	4.05
2 Year Treasury (yield)	2.69	2.72	2.35	0.73	0.16	2.29	1.27
10 Year Treasury (yield)	2.89	2.90	2.40	1.51	1.64	2.53	2.29
30 Year Treasury (yield)	2.94	2.95	2.52	1.90	2.31	2.96	2.95
WTI Crude (closing price)	104.69	102.86	104.25	75.33	65.00	63.39	49.31
Brent Crude (closing price)	109.34	105.15	112.79	77.24	68.26	71.22	49.46
Gold (NYM \$/oz)	1909.30	1931.00	1912.00	1827.50	1768.10	1278.60	1266.10

WHAT HAPPENED LAST WEEK?

Stocks: Tech Earnings Fail To Stem The Selling Tide; FOMC Meeting Looms Large For Markets This Week.

Global equity markets began last week on shaky footing, falling sharply last Tuesday as investors positioned for the worst from mega-cap technology names set to report quarterly results over the coming days. Earnings reports were ultimately a mixed bag as investors cheered Microsoft and Meta Platforms (Facebook) but jeered weak guidance out of Apple and Amazon which spurred selling into the weekend with the S&P 500's 3.2% weekly decline entirely attributable to Friday's sell-off. Last week's volatility again highlights the difficulty market participants continue to have in determining what they are willing to pay for longer duration assets such as information technology stocks given a lack of clarity surrounding just how far global central banks will have to go when fighting persistently high inflation. While U.S. indices were decidedly weak, the MSCI Emerging Markets index eked out a 0.8% weekly gain. The MSCI China index ended the week 3.7% higher, those gains materializing on Friday as the Chinese government hinted at a less onerous regulatory environment for technology platforms moving forward. For the coming week, a challenging and volatile backdrop for stocks is likely to remain in place as uncertainty surrounding monetary policy normalization, inflation, and geopolitics dominates headlines, further weighing on decidedly 'bearish' investor sentiment and limiting risk appetite.

- Some of the guideposts we look for to signal a washout for equities have so far fallen shy of displaying outright 'fear,' implying that more downside for stocks potentially lies ahead. Specifically, the CBOE Put/Call Composite, a measure of demand for puts to hedge portfolios relative to calls to position for future upside, peaked at 1.3 last week, falling short of elevated readings above 1.4 seen near recent market bottoms. The CBOE Volatility Index, or VIX, peaked last Friday north of 34 amid a steep sell-off, which places it in the ballpark of the 35 to 40 range which has often coincided with bottoms in the S&P 500 dating back to the COVID low in March of 2020. A VIX reading of 40 would likely coincide with a near-term bottom, so while the VIX came close to a washout level, it fell just short, in our view. Lastly, as we note under the "Bonds" section, high yield credit spreads continued to widen last week, and given the strong historical relationship between high yield credit spreads and stocks, we would like to see high yield credit spreads begin to stabilize to signal that any equity rally can be sustained. With the S&P 500 closing below a technical support level at 4,170 on Friday and an FOMC meeting coming up this week, more volatility likely lies ahead for stocks and credit spreads over the coming week.

- The U.S. Dollar Index, or DXY, has benefitted from safe-haven inflows and currency devaluation abroad (China, Japan) and has appreciated by 7.5% year-to-date and 2% last week alone. Many commodities are priced in U.S. dollars and a stronger greenback increases costs for commodity importing emerging economies. U.S. dollar strength will be met with even tighter monetary policy out of emerging market central banks which will weigh on economic growth, and along with COVID lockdowns in China, presents a headwind for emerging market equity gains.

- Headwinds remain for stocks on three fronts as May begins: 1) uncertainty surrounding U.S. monetary policy and economic growth; 2) the negative impacts of a prolonged Russia/Ukraine war on Europe and emerging markets; and 3) China's 'zero COVID' policy leading to persistent global supply chain bottlenecks and higher prices for many imported goods. First, after 1Q22 real GDP fell an annualized 1.4% last week and the GDP Price Index rose 8.0% on an annualized basis, the path forward for monetary policy normalization in the U.S. remains fraught with potential missteps and a "soft landing" will be difficult

for the FOMC to orchestrate. Inflation may have peaked in March, but will remain elevated, in our view, leading to stagflation fears over coming months and a challenging backdrop for U.S. equities. Second, optimism surrounding a quick resolution to the Russia/Ukraine situation has waned and the war could potentially be waged for quarters to come. We expect sustained higher prices for energy and agricultural commodities as a result, likely forcing a more hawkish stance out of the European Central Bank (ECB) to combat inflation, a combination that could push Europe into a recession over coming quarters. Lastly, China's 'zero-COVID' policy remains a headwind for global supply chains and will serve to intensify inflationary pressures. China is unlikely to reverse this policy, but even if lockdowns are eased near-term, future lockdowns are likely, as are supply chain fits and starts. Barring an unlikely policy about-face, sentiment toward China and emerging markets is likely to remain weak and investors are unlikely to increase allocations to either area in a meaningful way.

Bonds: Wide Trading Range For Long Bonds In Advance Of This Week's FOMC Meeting; Credit Spreads Under Stress.

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- Last Thursday, the Bureau of Economic Analysis (BEA) released its preliminary estimate of 1Q22 GDP which showed that real GDP fell at an annualized rate of 1.4% quarter over quarter. The headline figure was weaker than the consensus estimate of 1.0% real GDP growth over the 4th quarter of '21. Quickly after the release, speculation began that perhaps the weaker than expected GDP reading would allow the FOMC to be less aggressive in normalizing monetary policy. That argument holds little water, in our view, given that the GDP Price Index rose an annualized 8.0% in the 1st quarter and the jobs market remains tight with labor costs likely to trend higher still. We continue to expect a 50-basis point increase at the FOMC's meeting this week, with another half-point hike likely to follow when the Committee meets again June 14-15.

- The credit spread on the Bloomberg High Yield index over the U.S. Treasury curve widened by 24-basis points week over week to end last week at 379 basis points – a level last seen in December 2020. Notably, at 379 basis points over the Treasury curve, the credit spread on the Bloomberg High Yield Index is still nearly 140 basis points below its 20-year average of 518 bps. Even after a sharp move higher in yields on riskier bonds year-to-date, yields could move higher still as money supply/liquidity is reduced as the FOMC normalizes monetary policy.

Source: Bloomberg, FactSet

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