Summary Capital Market Commentary – April 2022

- **Equity markets saw further falls in April. Global shares were hit by the ongoing war in Ukraine, lockdowns in China, continued supply chain disruptions, and expectations that US interest rates could rise swiftly. US shares were sharply lower after disappointing updates from some previously fast-growing companies.**

- Equity Markets
  - US equities fell sharply in April. Economic data showed signs of weakening while inflationary pressures continued to prompt the Federal Reserve (Fed) into a more aggressive path of interest rate hikes. Several high-profile US tech firms were notably weaker on supply-chain concerns and lackluster results. Weakness was widespread. Consumer staples were more resilient, while most other sectors declined. Consumer discretionary companies, unsurprisingly given the damage to consumer confidence, were amongst the weakest over the month. Car manufacturers were especially hard-hit. Communication services also declined. Netflix, notably, fell sharply after its net loss of subscribers in Q1, the first quarterly decline in users since 2007.
  - April saw further declines for eurozone equities as the war in Ukraine continued and there was no let up in inflationary pressures. Annual eurozone inflation reached 7.5% in April, up from 7.4% in March. Russia halted gas supplies to Poland and Bulgaria after the two countries refused to comply with a decree from Russia that payment must be made in rubles. The eurozone economy grew by 0.2% quarter-on-quarter on Q1 and the unemployment rate dipped in February to 6.8%, from 6.9% in January. Forward-looking indicators painted a mixed picture: the services purchasing managers index (PMI) hit an eight-month high amid an upturn in tourism, but manufacturing PMI reached a 22-month low.
  - After initial weakness, the Japanese stock market drifted sideways to end April 2.4% lower. The yen again weakened sharply against the US dollar in April, breaching the 130 level for the first time in 20 years.
  - Asia ex Japan equities were lower in April as China struggled to contain its worst outbreak of Covid-19. This prompted fears that the subsequent economic stoppages could have a wider impact on the global economy and exacerbate the global supply chain shortages. Shanghai, China's largest city and home to almost 25 million people, has been in lockdown since the end of March when cases of the Omicron variant started spiking.

Source: Schroders & SAA

Summary Capital Market Commentary – April 2022

- **Bond yields continued to rise (meaning prices moved lower) as markets anticipated significant interest rate hikes.**

- Bond Markets
  - Bond yields continued to rise in April, resulting in further negative returns (yields and prices move in opposite directions), amid continued high inflation and expectations of significant interest rate hikes. Investors continued to weigh up the uncertainty of the war in Ukraine and the resulting disruption to supply chains. Concerns over the global growth outlook have begun to mount too, with China maintaining stringent lockdowns to tackle Covid-19.
  - The Fed maintained a hawkish stance. Policy minutes indicated it is considering a relatively quick reduction in its balance sheet. Later in the month, Fed Chair Jay Powell signaled a potential 0.5% rate increase in May. US consumer price inflation accelerated to 8.5% year-on-year in March though the core personal consumption expenditure index fell marginally to an annualized 5.2%, from 5.3%. The US 10-year Treasury yield increased from 2.35% to 2.94% and the two-year from 2.33% to 2.73%. The two to 10-year yield curve (two-year minus 10-year yield) inverted briefly early in the month.
  - In Europe, the German 10-year yield rose from 0.55% to 0.94% and the Italian 10-year yield rose from 2.04% to 2.77%. Europe saw continued surging inflation and speculation around monetary tightening. European Central Bank President Christine Lagarde repeated the message that asset purchases will end early in Q3 and rates could rise this year, but the governing council will maintain “optionality”.
  - Corporate bonds saw negative total returns and underperformed government bonds. High yield saw the more significant spread widening though spreads remained below the highs seen earlier this year.

Source: Schroders & SAA

Fixed Income Yields

Index YTW	12/31/2021	3/31/2022	4/30/2022	Chg Prior Month	Chg Calendar Yr	CORE Current Real Yields	HEADLINE Current Real Yields
Aggregate	1.75%	2.92%	3.48%	▲ 0.56%	▲ 1.73%	▼ -3.02%	▼ -5.02%
Intermediate Aggregate	1.55%	2.81%	3.36%	▲ 0.55%	▲ 1.81%	▼ -3.14%	▼ -5.14%
U.S. Treasury	1.23%	2.42%	2.88%	▲ 0.46%	▲ 1.65%	▼ -3.62%	▼ -5.62%
U.S. 2-Yr Treasury	0.73%	2.32%	2.72%	▲ 0.40%	▲ 1.99%	▼ -3.78%	▼ -5.78%
U.S. 5-Yr Treasury	1.26%	2.45%	2.94%	▲ 0.49%	▲ 1.68%	▼ -3.56%	▼ -5.56%
U.S. 10-Yr Treasury	1.50%	2.33%	2.90%	▲ 0.57%	▲ 1.40%	▼ -3.60%	▼ -5.60%
U.S. 30-Yr Treasury	1.89%	2.44%	2.97%	▲ 0.53%	▲ 1.08%	▼ -3.53%	▼ -5.53%
U.S. Agency MBS	1.98%	2.99%	3.59%	▲ 0.60%	▲ 1.61%	▼ -2.91%	▼ -4.91%
ABS	1.13%	2.84%	3.40%	▲ 0.56%	▲ 2.27%	▼ -3.10%	▼ -5.10%
CMBS	1.88%	3.26%	3.78%	▲ 0.52%	▲ 1.90%	▼ -2.72%	▼ -4.72%
U.S. Credit	2.25%	3.52%	4.20%	▲ 0.68%	▲ 1.95%	▼ -2.30%	▼ -4.30%
A-Rated Corporates	2.11%	3.34%	3.99%	▲ 0.65%	▲ 1.88%	▼ -2.51%	▼ -4.51%
BBB-Rated Corporates	2.58%	3.89%	4.59%	▲ 0.70%	▲ 2.01%	▼ -1.91%	▼ -3.91%
Municipal Bond	1.11%	2.60%	3.18%	▲ 0.58%	▲ 2.07%	▼ -3.32%	▼ -5.32%
Taxable Municipal Bond	2.33%	3.48%	4.10%	▲ 0.62%	▲ 1.77%	▼ -2.40%	▼ -4.40%
U.S. High Yield	4.21%	6.01%	6.98%	▲ 0.97%	▲ 2.77%	▲ 0.48%	▼ -1.52%
Global Aggregate (USD)	1.32%	2.15%	2.57%	▲ 0.42%	▲ 1.25%	▼ -3.93%	▼ -5.93%
U.S. Agg. vs. Global Agg.	▲ **0.43%**	▲ **0.77%**	▲ **0.91%**	▲ **0.14%**	▲ **0.48%**	Using Core Inflation Rate at 3/31/2022 which was 6.5%	Using Headline Inflation Rate at 3/31/2022 which was 8.5%
Curve Steepness: UST 2yr-10yr Spread (bps)	77.0	1.0	18.0	▲ 17.0	▼ -59.0		
Curve Steepness: UST 5yr-30yr Spread (bps)	63.0	-1.0	3.0	▲ 4.0	▼ -60.0		

Source: Bloomberg Barclays Indices & BofA ICE Indices

Key Take Aways:

- ❑ **Nominal market yields continued to rise after Q1 and were significantly higher at the close of April 2022 generating sharply negative total returns across all fixed income sectors, again. However, higher reinvestment yields will generate additional earned income and curtail the decline of book yields across all core fixed income portfolios.**

Source: Bloomberg Barclays & ICE Fixed Income Indices