Monthly Commentary & Economic Outlook

MEMBERS TRUST COMPANY

May 2, 2022

The equity markets declined in April, as the S&P 500 was down –8.72%, US small caps –7.81%, US mid-caps –7.11%, international developed –6.52%, and emerging markets –5.49%[1].

Sharp underperformance of growth stocks relative to value stocks has continued in April, with US large cap growth stocks down –12.83% and US large cap value stocks down –4.72%[1]. We remain positioned with a higher exposure to value stocks than growth stocks, which has served to reduce downside for portfolios[2]. The recent downside in equity markets has been caused in part by news that China has embarked on mass testing in its capital city of Beijing in response to a spike in Covid cases in the city[3]. This has lead to concerns that Beijing may follow in the footsteps of Shanghai, China's largest city, most of which is under a prolonged lockdown due to China's zero-Covid policy. Importantly, China's zero-Covid policy generally seems to not have been adopted thus far in other major economies around the world. We are cognizant of the risks of investing in China and other emerging markets, which is why we have no material exposure to Chinese stocks in our Income Strategy and only an approximate 1.4% allocation in Conservative Strategy portfolios[3].

The 10yrTy rose in April from 2.34% to 2.94%[1]. After the yield rose significantly by mid-April, we modestly increased the average maturity length of the bonds underlying the fixed income side of our Investment Strategies. We remain positioned for interest rates to continue to rise over time, albeit at a slower pace that may enable fixed income to resume positive returns. The Consumer Price Index, a barometer commonly used to measure US inflation, rose +8.5% from March 2021 to March 2022, though we expect that inflation rate to slow down by the end of year[4]. Market participants are currently pricing in a 54.6% probability that the US Federal Reserve may raise its short-term interest rate from the current 0.25%-0.50% range to above 3.00% by December 2022, though we think this fear is overblown[5].

INDICATOR	OUTLOOK
Gross Domestic Product (GDP)	🟢
Unemployment	🟢
Consumer Price Index (CPI)	🔴
Fed Policy	🔴
Interest Rates	🟡
Dollar Strength	🟡
Market Valuations	🟢

🟢 = Positive Indicator, 🟡 = Neutral Indicator, 🔴 = Negative Indicator

External sources: Bloomberg data[1], Morningstar[2], CNBC.com[3], US Bureau of Labor Statistics[4], CME[5].

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