

April 21, 2022

# MARKET OUTLOOK | FRANCIS J. PERFETUO, JR., CFA

Greetings from your Team at Veritas!

As we move through the 2nd quarter of 2022, I wanted to connect with you on current news, ongoing developments, and provide an update on market performance:

- In the news:
  - o The Federal Reserve (Fed), as promised delivered their first rate hike of the year, 25bps in March 2022. They also signaled that it will keep raising rates throughout the year based on their data points. The goals of this shift in monetary policy are to help fight inflation (higher prices) and to keep the economic recovery on track, essentially painting a picture for a “soft landing”
  - o After another strong year in 2021, markets got off to a tough start and struggled in 1Q22. For the rest of 2022, we expect continued economic growth, a rebounding labor market, rising consumer demand, healthy earnings, and continued improvements in global supply chains, all while the Fed deals with the challenges of managing inflation
  - o The quarter included the escalation of hostilities in Ukraine causing concerns over the war’s impact on inflation and the global economy
- Developments to monitor:
  - o The Fed and Inflation – investors are closely monitoring the Fed for any changes to their plans. More rate hikes or more frequent hikes would cause concern that inflation pressures are worse than expected and could put further pressure on the markets
    - Contributing to the recent 8.5% inflation spike is healthy consumer demand, higher energy prices, Ukraine related sanctions, global supply chain disruptions, and the improved labor market/wage growth. Our view is that this reading should represent a peak.
  - o Recessionary concerns are growing – if the Fed is unable to engineer the “soft landing” the economy could slow more than expected and enter a short recession
  - o Earnings – 1st quarter earnings are just starting up be reported so it is too soon to tell. We are optimistic that current economics will support improved earnings and markets will react favorably
  - o Mid-Term Elections – still early but the impact on the political landscape of the upcoming mid-term elections this year is worth monitoring for large shifts
- Market Performance for 1Q22 (1/1/22 - 03/31/22):
  - o Equity Benchmarks 1
    - S&P 500 (US Large Caps): -4.6%
    - Russell 2000 (US Small Caps): -7.5%
    - MSCI EAFE (International Developed): -5.9%
  - o Fixed Income Benchmark 2
    - ICE BofAML US Corp & Govt 1-10 Yr A-Rated (Bonds): -4.2% (1Q)
    - Fixed Income markets have been impacted by the rise in interest rates causing pricing pressures for bonds
  - o Alternative Investment Benchmark 3
    - HFRX Global Hedge Fund Index (Alternative Investments): -2.4% (1Q)



**Francis J. Perfetuo, Jr., CFA**  
*Managing Partner*  
*Portfolio Manager*

While we are not happy with recent market performance, we know that volatility and short term Market weakness is normal under current conditions. We believe our portfolio is positioned well to capitalize when the markets stabilize and recover from these levels. A primary focus of our disciplined investment process is risk management and diversification. These have benefited our portfolio by producing long term results that we expect to continue.

I will continue to monitor all market developments with a particular focus on the Fed and inflation, interest rates, Ukraine, corporate earnings, and the overall economic landscape.

As always, thank you for your trust and confidence in our Team!

1 Source: Blackrock

2 Source: ICE Index Platform

3 Source: HedgeFundResearch.com (Returns through 2/28/22)

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