WINTHROP WEALTH

FEBRUARY 2022 MARKET RECAP

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Market weakness continued in February as the S&P 500 fell by-3.0% in the month, bringing the year-to-date decline to-8.0%. The stock market suffered its first correction (a decline of greater than-10%) since the initial phase of the pandemic. To put things in perspective, the S&P 500 is still up by about +16.4% on a 1-year basis. We will also keep reminding our clients that market declines are very common as since 1928 the S&P 500 has averaged an annual peak-to-trough decline of about-15%.

- **Market Cap**: Mid (+1.1) and Small Caps (+1.1%) outperformed Large Caps (-3.0%).
- **Style**: Value (Russell 1000 Value:-1.2%) exceeded Growth (Russell 1000 Growth:-4.3%).
- **Sector**: Out of eleven sectors, only Energy (+7.1%) was positive for the month with Real Estate (-5.0%) and Communication Services (-7.0%) as the laggards.
- **Yields**: The 10-Year Treasury increased by 5 basis points to 1.83%.
- **Fixed Income**: The Bloomberg Barclays US Aggregate Bond index (Agg) decreased by-1.1%.

This year the stock market has dealt with the double whammy of increased monetary policy tightening expectations and the Russian/Ukrainian war. Each of these issues on their own would have likely caused a market decline, but together they have caused a correction and a very volatile several weeks. As a reminder, we expected volatility to increase this year and we prepared by shifting portfolios more defensively as the market moved higher in 2021. We know that stocks do not move higher in a linear fashion and market volatility is quite common (please see our **Client Question on Why Market Timing Does Not Work**).

During periods of market stress, we continue to apply our time-tested investment process based on risk management, asset allocation, and security selection. We have also begun to tax-loss harvest and reposition portfolios where appropriate. We will continue to look for further opportunities as we move throughout the year.

We also thought it would be helpful to look at how the stock market has historically responded to tightening monetary policy and geopolitical events. Please see our latest Client Questions:

- **February 2022: Market Performance During Fed Tightening Cycles**
- **March 2022: Market Reaction to Geopolitical Events**

The markets have several major events over the next month, including, any update from Russia and Ukraine, the OPEC+ Meeting (3/2), Fed Chair Powell's Congressional Testimony (3/2 – 3/3), February Employment Report (3/4), CPI Inflation (3/10), FOMC Meeting (3/16), and PCE Inflation (3/31).

As we have done in the past, we will provide an update on the major factors driving the market:

Monetary Policy

Over the last several weeks the Fed has strongly signed that they will soon start tightening monetary policy by raising interest rates and decreasing the size of their nearly $9 trillion balance sheet. The Fed will tighten policy by first raising interest rates and then moving to shrink their balance sheet a few months later. The first fed rate hike since December 2018 will likely occur at the March 16th meeting. In the latest FOMC minutes, the Fed stated that, "with inflation well above 2 percent and a strong labor market, members expected that it would soon be appropriate to raise the target range for the federal funds rate." The market has now priced in nearly six rate increases in 2022.

Our takeaway from the latest Fed meeting is that it seems like Chair Powell and the committee want to raise rates a few times, start the balance sheet runoff process, and then reassess where the economy and inflation stand. Whether or not the Fed raises rates six times this year will depend on if inflation readings and the markets. The Fed will hold off on rate increases if inflation starts to decelerate or the markets have a significant decline. Fed Chair Powell has demonstrated that he is data dependent and will quickly change policy as the economy and markets evolve.

Inflation

Our comments on inflation sound like a broken record as the latest readings continue to increase to their highest levels in decades due to supply chain bottlenecks, surging energy prices, and pent-up demand.

The Fed's preferred inflation measure (Core PCE inflation) increased by +5.2% Y/Y in January, well above the target of about 2%. For most of 2021, the Fed argued that the increase in inflation was transitory and would naturally dissipate by the end of the year. The Fed has now reversed course and is getting ready to tighten monetary policy to bring inflation under control. The current consensus estimate is for PCE Inflation to end 2022 at +3.9%. In December, the FOMC Summary of Economic projections had inflation at +2.6% at the end of the year. We will get the Fed's latest inflation forecast at the March meeting (this will likely move higher).

We are still trying to combat the current rise in inflation by holding little cash in portfolios, avoiding long-term bonds, and overweighting equities of companies that are able to grow their cash flows, earnings, and dividends. Please see our **June Client Question on Inflation**, where we detailed how the data is calculated, why the Fed cares about and targets inflation, and the impact it has on various asset classes (cash, fixed income, and equities). In our **December Client Question – Revisiting Inflation**, we thought it would be helpful to outline three potential scenarios for how inflation could impact the economy and stock market in 2022, provide an update on supply chain bottlenecks, and look at the latest readings of various inflation measures and forecasts.

Economic Data

Real GDP is still estimated to increase by +3.7% in 2022 and +2.5% in 2023.

Labor Market: The labor market continues to exhibit signs of recovery as the latest Bureau of Labor and Statistics Employment report showed an increase of +467,000 jobs in January. Since the start of the pandemic, the labor force has lost about 2.9 million jobs. The demand for labor remains strong as latest Job Openings and Labor Turnover Survey (JOLTS- December) reported over 10.9 million job openings. The February employment report, which will be released on March 4th, is expected to show an increase of +415,000 jobs and the unemployment rate falling from 4.0% to 3.9%.

We know that the economy is decelerating from the post-pandemic period and that this should persist over the next few years. While inflation, supply chain issues, covid, and fading stimulus will remain an overhang, for now the economy is on solid ground supported by a recovering labor market and strong consumer. Although, we are mindful of indicators as to whether the deceleration is moving to a material slowdown.

FEBRUARY MARKET RETURNS

US Equity

Index	February	2022	2021	2020	2019	2018	3-Year	5-Year	10-Year	20-Year
S&P 500	-3.00%	-8.02%	28.68%	18.39%	31.48%	-4.39%	18.21%	15.15%	14.51%	9.24%
Russell 3000	-2.52%	-8.25%	25.64%	20.88%	31.01%	-5.25%	17.52%	14.66%	14.18%	9.42%
Dow Jones Industrial Average	-3.29%	-6.43%	20.95%	9.72%	25.34%	-3.48%	11.71%	12.70%	12.68%	8.85%
Nasdaq	-3.35%	-12.00%	22.21%	45.05%	36.74%	-2.81%	23.30%	19.91%	17.86%	12.09%
S&P 400	1.11%	-6.18%	24.73%	13.65%	26.17%	-11.10%	13.36%	10.68%	12.16%	10.21%
Russell 2000	1.07%	-8.67%	14.78%	19.93%	25.49%	-11.03%	10.47%	9.47%	10.99%	9.05%
Russell 1000 Growth	-4.25%	-12.47%	27.59%	38.49%	36.39%	-1.51%	23.15%	20.22%	16.91%	10.45%
Russell 1000 Value	-1.16%	-3.46%	25.12%	2.78%	26.52%	-8.28%	12.18%	9.43%	11.64%	8.16%

International Equity

MSCI Index	February	2022	2021	2020	2019	2018	3-Year	5-Year	10-Year	20-Year
EAFE	-1.77%	-6.52%	11.26%	7.82%	22.01%	-13.79%	7.77%	7.16%	6.13%	6.23%
Europe	-5.05%	-9.66%	13.54%	7.89%	23.20%	-16.90%	7.40%	7.22%	6.18%	5.44%
Japan	-1.12%	-6.13%	1.71%	14.48%	19.61%	-12.88%	7.21%	6.13%	6.57%	5.51%
China	-3.90%	-6.73%	-21.72%	29.49%	23.46%	-18.88%	0.53%	5.70%	4.72%	11.16%
Emerging Markets	-2.99%	-4.83%	-2.54%	18.31%	18.42%	-14.57%	6.03%	6.99%	3.34%	9.05%
ACWI ex US	-1.98%	-5.59%	7.82%	10.65%	21.51%	-14.20%	7.66%	7.26%	5.40%	6.68%

US Fixed Income

Bloomberg Barclays Index	February	2022	2021	2020	2019	2018	3-Year	5-Year	10-Year	20-Year
Aggregate	-1.12%	-3.25%	-1.54%	7.51%	8.72%	0.01%	3.30%	2.71%	2.46%	4.06%
Treasury Bills	0.01%	0.01%	0.04%	0.54%	2.21%	1.83%	0.80%	1.07%	0.58%	1.20%
Corporates	-2.00%	-5.30%	-1.04%	9.89%	14.54%	-2.51%	4.76%	3.82%	3.81%	5.15%
Securitized MBS/ABS/CMBS	-0.98%	-2.45%	-1.04%	4.18%	6.44%	0.99%	2.04%	1.98%	2.04%	
High Yield	-1.03%	-3.73%	5.28%	7.11%	14.32%	-2.08%	5.31%	4.88%	5.87%	7.66%
Munis	-0.36%	-3.09%	1.52%	5.21%	7.54%	1.28%	3.19%	3.24%	3.15%	4.23%

US Equity Sectors

Index	February	2022	2021	2020	2019	2018	3-Year	5-Year	10-Year	20-Year
Technology	-4.90%	-11.45%	34.52%	43.88%	50.29%	-0.29%	31.06%	26.56%	20.67%	12.68%
Real Estate	-5.02%	-13.09%	46.14%	-2.17%	29.00%	-2.23%	12.67%	10.67%	9.39%	
Industrials	-0.87%	-5.56%	21.10%	11.05%	29.32%	-13.32%	11.47%	10.35%	12.38%	8.36%
Energy	7.14%	27.61%	54.35%	-33.68%	11.81%	-18.10%	8.60%	4.66%	2.82%	7.49%
Consumer Discretionary	-3.99%	-13.28%	24.43%	33.30%	27.94%	0.82%	18.28%	16.50%	16.63%	10.60%
Communication Services	-6.98%	-12.75%	21.57%	23.61%	32.69%	-12.53%	16.05%	9.11%	9.94%	6.50%
Consumer Staples	-1.42%	-2.77%	18.63%	10.75%	27.61%	-8.39%	14.83%	9.69%	11.72%	9.17%
Utilities	-1.85%	-5.06%	17.67%	0.52%	26.35%	4.11%	9.60%	9.20%	10.81%	8.87%
Materials	-1.24%	-8.00%	27.28%	20.73%	24.58%	-14.70%	17.34%	12.04%	10.53%	9.07%
Financials	-1.35%	-1.30%	34.87%	-1.76%	32.09%	-13.04%	15.71%	11.71%	14.59%	5.40%
Health Care	-1.02%	-7.71%	26.13%	13.45%	20.82%	6.47%	14.56%	13.76%	15.68%	9.05%
	Calendar Year Returns						Annualized Returns			

SOURCE: Bloomberg

DISCLOSURES:

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Past performance is no guarantee of future results. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

This information is not intended to be a substitute for individualized tax advice. We suggest that you discuss your specific tax situation with a qualified tax advisor.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 709 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid Cap A shares represented at 20% of their free float adjusted market capitalization.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 27 Emerging Markets (EM) countries. With 2,354 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Bloomberg Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays Insured Municipal Bond Index is a total return performance benchmark for municipal bonds that are backed by insurers with Aaa/AAA ratings and have maturities of at least one year.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.