

April
2022



War & Inflation

The first quarter of 2022 was unsettling and volatile, both globally and for financial markets. There were few safe havens as both stock and bond markets in the US and abroad faced declines. The double-whammy of domestic inflation concerns and war in Europe was enough to finally end the Covid-relief rally that began in mid-2020.

Despite the increased market volatility, US stocks ended the quarter with only a small decline. The S&P 500 index closed at a new all-time high on January 3rd, the first trading day of the year, before reversing and beginning to slide. A slight recovery took hold at the end of January, leading to a volatile February that trended downward until we reached mid-March. Oil prices, which had risen steadily through the start of March, began backing off, granting some relief and contributing to a recovery in stocks the last two weeks of the quarter.

International stocks fared better than domestic equities at the start of the quarter. Unfortunately, the impact of Russia's activities has been felt throughout Europe, taking a toll from a humanitarian perspective and a financial one. Non-US stocks rallied at the close of the quarter, mirroring their domestic counterparts, to end with a loss of 5.91%.

Fixed income investments experienced one of their worst quarters in recent memory. As interest rates shot up, bond prices adjusted downward, leading the Bloomberg US Agg bond index (AGG) to a decline of 5.93% for the quarter. Fortunately, prices should work their way back as the underlying bonds mature and new fixed income investments issued at higher interest rates provide increased income.

The Fed recently implemented its first rate hike since 12/2018 as it attempts to slow the economy slightly to combat inflation. It is currently anticipated that the Fed will increase the federal funds rate by .25% at each of their next six meetings this year, with possibly more to follow next year, depending on the state of the economy. These future increases have largely been priced in to fixed income investments, driving much of the declines mentioned above. The changes brought with them a large jump in mortgage rates – whether it cools the residential real estate market is set to be seen. On the positive side, money markets and savings accounts should start to increase their interest payments in the coming months.

March 13 marked two years since the coronavirus pandemic was declared a national emergency. While the US is largely moving on thanks to declines in severe cases, there are continued challenges in other parts of the world. Supply chain disruptions and production backlogs are persisting longer than originally anticipated and impacting many industries. This continues to be a major driver of the recent headline inflation, indicating it may persist at the current level for at least a few more months before rolling over – the key for now is patience.

We hope you have a wonderful Spring and enjoy the warming weather! As always, [please let us know](#) of any questions or concerns.

The PWM Team

Market Update

Market index returns for the first quarter and year of 2022:

	Q1	YTD
DOW	-4.10%	-4.10%
NASDAQ	-8.95%	-8.95%
S&P 500	-4.60%	-4.60%
MSCI EAFE	-5.91%	-5.91%
Barclays Agg	-5.93%	-5.93%

Inflation & Stocks

During the 16 highest inflation years in the last century, the S&P500 was “up” 8 years and “down” 8 years. The average return for all 16 years was +3.9% per year.


Oil Price History

WTI Crude oil reached its highest level ever at \$147.27 per barrel on 7/11/2008, shortly before Russian forces invaded the former Soviet republic of Georgia. Recently prices peaked at \$123.70 shortly after Russian invaded Ukraine.

Savings Rate

The personal savings rate jumped to 15% in 2020 and remained around 11% in 2021. This is the highest rate in over 30 years and well above the long-term average personal savings rate of 7.9%.

Connect With Us

 [@prattwealth](#)

 [@prattwealthmn](#)

Visit us at:

www.prattwealth.com

connect@prattwm.com
507.388.0770

Main Office
1651 Commerce Dr
North Mankato, MN 56003

Metro Office
2315 Waters Drive
Mendota Heights, MN 55120

Statements regarding stock market returns refer to the S&P 500 index and bond index returns refer to Barclays Aggregate Index.

S&P 500: The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization US stocks.

The Barclays US Aggregate Index covers the dollar-denominated investment-grade fixed-rate taxable bond market

The Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East.

DJIA- A price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including stocks that trade on the New York Stock Exchange
Nasdaq- A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.