Monthly Market Review

Fixed Income | April 2022

pfm asset management

"The Price is NOT Right."

Economic Highlights

► The fog of war clouded the global economic outlook as Russia continued its assault on Ukraine. The U.S. and its allies have imposed additional sanctions on Russia, and progress on peace negotiations seem to have stalled.

► Although Europe is highly vulnerable to the conflict between Russia and Ukraine due to its reliance on Russian oil and gas, the impact on the U.S. economy largely results from just higher prices for agricultural goods, metals and energy commodities.

► Inflation continued to run hot with the consumer price index (CPI) increasing 8.5% over the past year – a new 40-year high. Energy costs again led the surge, with gasoline prices nearly doubling and fuel oil rising 70% from a year ago. Used car prices moderated, but food, transportation and shelter costs all rose at a strong clip. Rising costs negatively impact consumer finances, felt most acutely by lower-income households, pushing consumer sentiment readings to a decade low.

► The economic sector that consumers were still optimistic about was the labor market. The U.S. economy added 431,000 jobs in March, while the jobless rate fell to 3.6%. The number of job openings remains high as businesses continue to struggle to find workers, with nearly two job openings for every unemployed person.

► Manufacturing activity trended lower, falling to its lowest level since 2020 on slower growth in new orders and production. Meanwhile, service sector activity picked up. Survey commentary was less upbeat, noting supply-chain challenges, rising inflation and global uncertainty.

► In March, the Federal Reserve (Fed) raised interest rates by 25 basis points (bps) and signaled seven total rate hikes in 2022. The rate hike occurred after two years of highly accommodative monetary policy to support the economy amid the COVID-19 pandemic. The Fed has taken a decidedly hawkish tilt, suggesting that reducing its $8.9 trillion balance sheet will begin soon and 50 bp rate hikes could occur at the next few Federal Open Market Committee (FOMC) meetings.

Bond Markets

► Treasury yields continued to rise significantly. The yield on the benchmark 2- and 10-year Treasury note finished the quarter at 2.33% and 2.34%, having jumped 90 bps and 51 bps, respectively, for March. The jump in yields comes as Fed policymakers are increasingly voicing support for front-loading the rate hike cycle to curb persisting inflation. Prospects of aggressive rate increases inspired the selloff in Treasuries.

► As a result of the surge in rates, U.S. Treasuries posted some of the worst monthly returns over the past 40 years. The ICE BofAML 2-, 5-, and 10-year Treasury indices returned -1.29%, -2.98%, and -4.60%, respectively.

► In March, 30-year fixed rate mortgages spiked to 4.67%, a level not seen since December 2018. This compares to 3.18% a year ago and the record low of 2.65% in January 2021.

Equity Markets

► Equities recovered as markets stabilized and volatility eased. The S&P 500 rose 3.7%, the Dow Jones Industrial Average gained 2.5% and the tech-heavy Nasdaq gained 3.5%. Despite the strong month, equity indices remain firmly in the red for the year.

► International stocks scraped out a positive 0.23% return, as measured by the MSCI ACWI ex-U.S. Index. For the year, nearly every European and Asian/Pacific market is down sharply. In U.S. dollar terms, the German DAX index was down 12.4% in Q1, while the Chinese Shanghai Shenzhen index was down 13.7%.

► Currency markets have been volatile as supply chains worsen amid the Russia and Ukraine crisis, commodity prices spike, and the U.S. and its allies imposed additional economic sanctions on Russia. The U.S. Dollar Index (DXY) appreciated 1.7% in March.

PFMAM Strategy Recap

► Concerns over the economic implications of the Russian invasion of Ukraine and the potential need for a faster pace of interest rate hikes to combat higher inflation weighed on financial markets. Given continued upward pressure on Treasury yields, we plan to maintain a defensive duration bias relative to benchmarks.

► Federal agency securities remain unattractive, compounded by expectations for light new issuance.

► After surging for much of the year, investment-grade (IG) corporate spreads pulled back from recent highs but remain elevated compared to levels over the past 18-months. We believe that the risk of a recession in 2022 is low and that conditions should remain supportive of credit fundamentals for the rest of the year. At current levels, corporates offer opportunities to invest at higher yields and attractive spreads.

► Asset-backed securities (ABS) yield spreads partially retraced their recent widening but remain attractive. We are watching carefully for any signs of weakness in collateral performance.

► In short-term markets, commercial paper and negotiable bank CDs look quite attractive. Shorter maturities and floating-rate issues seem to offer the best value, especially if the Fed moves to larger incremental rate hikes. On the other hand, yields on short-term T-Bills and agencies seem less compelling.

U.S. Treasury Yields

Duration	Mar 31, 2021	Feb 28, 2022	Mar 31, 2022	Monthly Change
3-Month	0.02%	0.31%	0.50%	0.19%
6-Month	0.03%	0.64%	1.02%	0.38%
2-Year	0.16%	1.43%	2.34%	0.91%
5-Year	0.94%	1.72%	2.46%	0.74%
10-Year	1.74%	1.83%	2.34%	0.51%
30-Year	2.41%	2.16%	2.45%	0.29%

Yields by Sector and Maturity

Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3-Month	0.50%	0.47%	1.73%	--
6-Month	1.02%	0.95%	1.82%	--
2-Year	2.34%	2.39%	2.48%	1.53%
5-Year	2.46%	2.54%	2.96%	1.89%
10-Year	2.34%	2.62%	3.30%	2.39%
30-Year	2.45%	3.05%	3.67%	2.95%

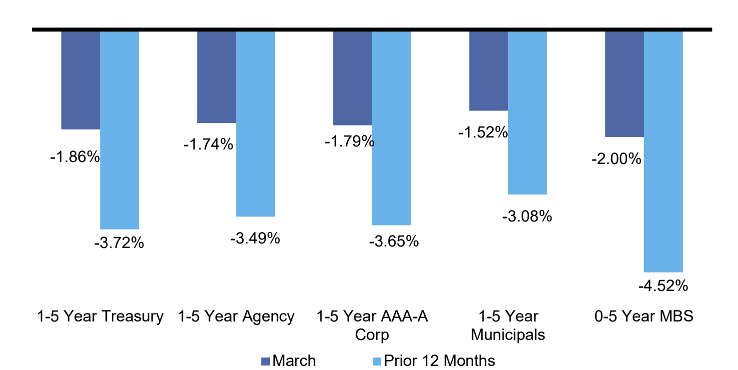
Spot Prices and Benchmark Rates

Index	Mar 31, 2021	Feb 28, 2022	Mar 31, 2022	Monthly Change
1-Month LIBOR	0.11%	0.24%	0.45%	0.21%
3-Month LIBOR	0.19%	0.50%	0.96%	0.46%
Effective Fed Funds Rate	0.06%	0.08%	0.33%	0.25%
Fed Funds Target Rate	0.25%	0.25%	0.50%	0.25%
Gold ($/oz)	$1,714	$1,901	$1,949	$49
Crude Oil ($/Barrel)	$59.16	$95.72	$100.28	$4.56
U.S. Dollars per Euro	$1.17	$1.12	$1.11	-$0.01

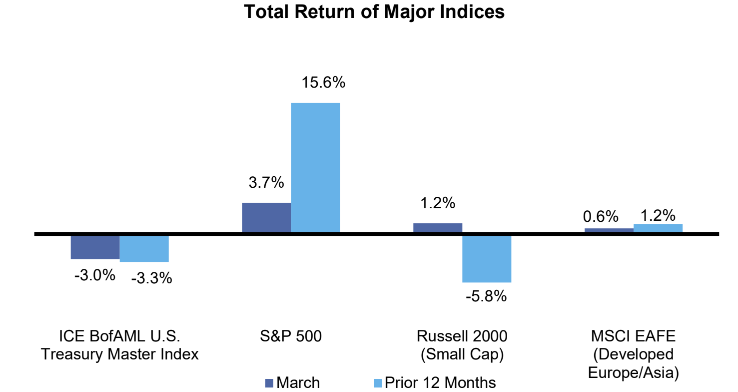
Key Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Retail Sales Advance MoM	16-Mar	Feb	0.3%	0.4%
Consumer Confidence	29-Mar	Mar	107.2	107.0
GDP Annualized QoQ	30-Mar	4Q T	6.9%	7.0%
PCE Core Deflator YoY	31-Mar	Feb	5.4%	5.5%
ISM Manufacturing	1-Apr	Mar	57.1	59.0
Change in Non-Farm Payrolls	1-Apr	Mar	431k	490k
Unemployment Rate	1-Apr	Mar	3.6%	3.7%

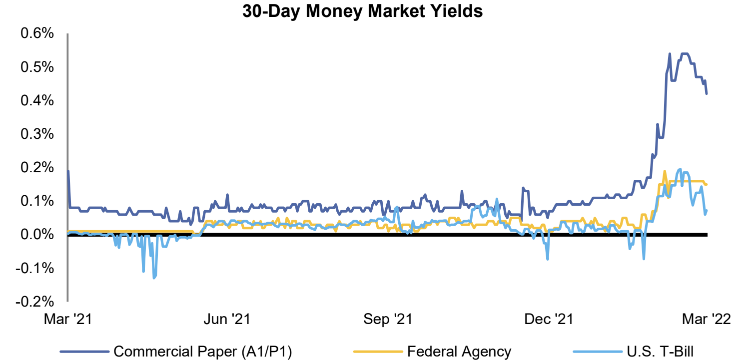
ICE BofAML Fixed Income Index Returns



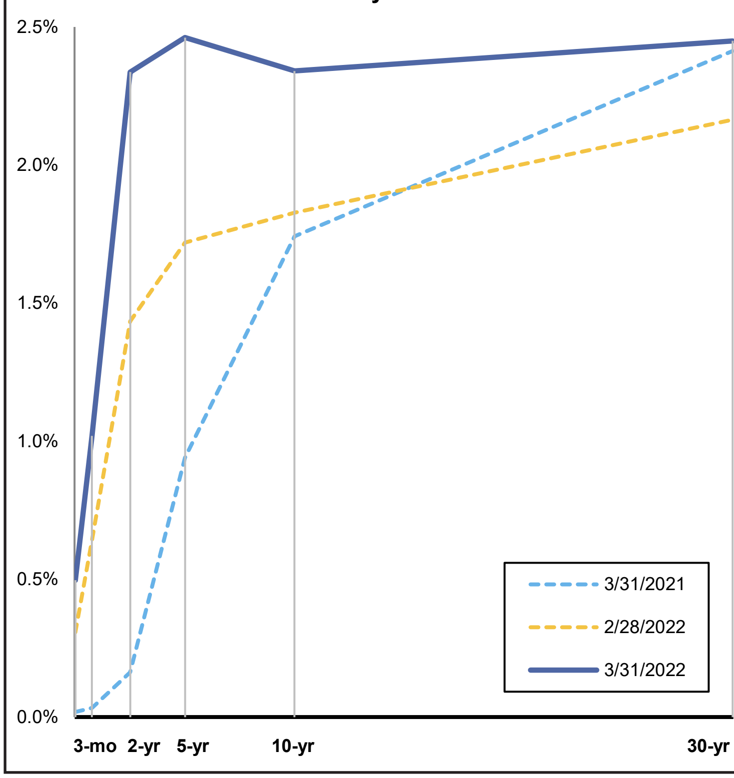
Total Return of Major Indices



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of March 31, 2022, unless otherwise noted.

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