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American Hawks and Russian Bears inhabit the markets

The stock market declined for the second straight month finishing 3% lower as investors digested hotter than expected inflation and volatility related to geopolitical conflict. In addition, investors began selling off early in the month as increasingly hawkish commentary and disappointing outlooks from big tech companies lowered confidence that growth in earnings and the stock market will be easy to come by anytime soon.

I reckon he'll have a tough time riding that one…

The real source of market volatility happened in the second half of February as investors sold the intensifying rumors of a potential Russian invasion of Ukraine. Once the rumor became real news, markets fell briefly then rebounded on thoughts that the conflict would likely end quickly as Russia and Ukraine began engaging in talks immediately after the invasion began.

Index Returns (%)	1M	YTD	12M
S&P 500	(3.0)	(8.0)	16.4
S&P MidCap 400	1.1	(6.2)	8.0
S&P SmallCap 600	1.4	(6.0)	4.2
Factor Returns (%)	**1M**	**YTD**	**12M**
S&P 500 High Beta	1.5	(4.3)	14.6
S&P 500 Value	(1.4)	(3.0)	16.2
S&P 500 Low Volatility	(2.3)	(6.7)	19.5
S&P 500 Growth	(4.5)	(12.5)	16.1
Top 3 Sectors (%)	**1M**	**YTD**	**12M**
Energy	7.1	27.6	55.0
Industrials	(0.9)	(5.6)	11.8
Health Care	(1.0)	(7.7)	17.3
Bottom 3 Sectors (%)	**1M**	**YTD**	**12M**
Information Technology	(4.9)	(11.5)	18.8
Real Estate	(4.9)	13.0	24.6
Communication Services	(7.0)	(12.8)	1.2

Russia-Ukraine tensions boil up and spill over

After weeks of speculation, Russia launched an invasion of Ukraine on February 24. Sanctions were immediately imposed by the US and other countries. Initially, the sanctions were mild, with western countries only targeting tech exports and some bank access.

Markets reacted positively to the limited sanctions, but days later, the US and Europe announced additional measures, including removing Russia from SWIFT, a critical interbank messaging system, that effectively cut Russia off from global financial markets.

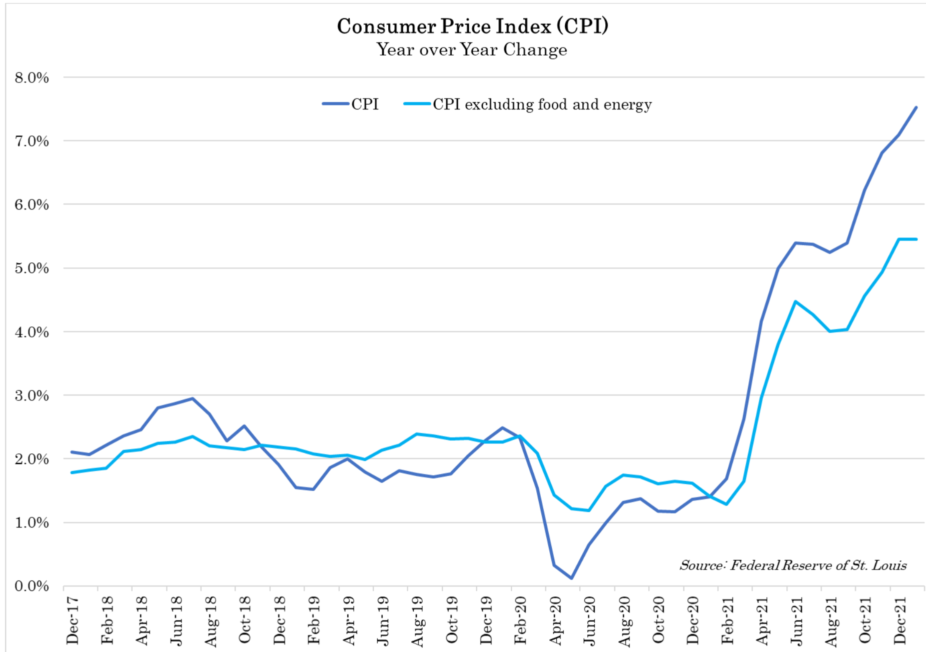
Consistent with most geopolitical shocks, global Brent crude oil prices spiked (eclipsing the $100/barrel mark for the first time since 2014). Also affected were commodities such as wheat, potash, and natural gas, of which the warring countries are significant suppliers for much of Europe.

Inflation is hot, forecasts are not

January's Consumer Price Index reading, a measure of inflation, came in at an unexpected 7.5% rate - the highest level in 40 years. Initial commentary from Fed officials was very hawkish, with some calling for a half-percent increase in March and a one percent total move higher by July.

Investors sold off on the reading, but as the month wore on, additional revelations suggested that the economy may not be overheating in a manner that would necessitate accelerated rate hikes. Unfortunately, many of these revelations came in less rosy outlooks given on quarterly earnings calls.

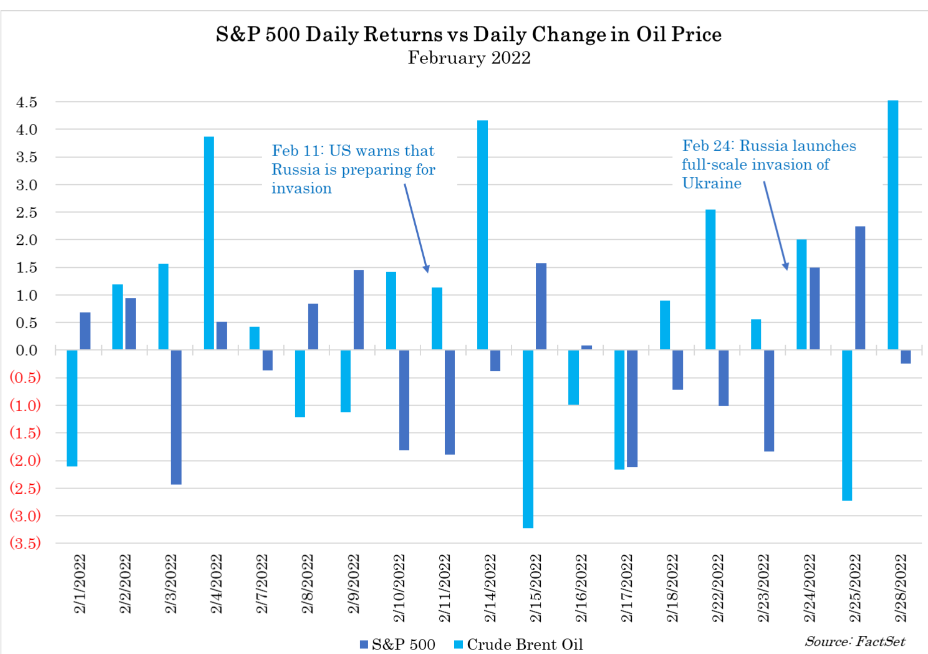
Of the 88 S&P 500 companies that have issued EPS guidance, 70% forecast lower EPS growth rates citing margin pressure from input costs, wage inflation, and ongoing supply chain challenges.



Outlook: Value in Volatility

Market fundamentals are beginning to look more attractive from a valuation standpoint. For example, 70% of S&P stocks are down 10% from their 52-week highs (over 200 are down 20%), bringing aggregate earnings multiples back within their five-year average ranges.

Investors also must consider economic fundamentals. The current inflationary environment leads to tougher margin expansions for companies, and impending Fed rate hikes are expected to hamper the near-term potential for growth-oriented stocks. The takeaway is that while good stocks may be finally available at a discount, economic challenges will force investors to embrace volatility for the opportunity of long-term gains.



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