Weekly Market Insights

March 28, 2022

Equities post a second straight weekly gain

Financial Markets

United States equity markets posted gains for the second week in a row. The reason investors turned positive is not entirely clear. Certainly, the Ukraine-Russia conflict does not appear to be coming to a close, and the path of interest rates is clearly higher. Whatever the reason, equities rose as bonds fell.

Given what is happening in Europe, it should come as no surprise that oil and gas stocks led the market followed by materials and utilities. The worst performers were health care and consumer services stocks. When reasoning why investors decided to be buyers last week, two reasons come to mind. The first is they have decided that the war will not significantly damage the United States economy, and/or, second, the Federal Reserve will be less aggressive in raising interest rates than originally thought. Perhaps, but neither is a sure bet.

The Economy

The economy does not appear to be in serious trouble, with the exception of unacceptably high inflation. Elevated inflation is the reason the Fed is in a tightening mode, and, as we wrote earlier, the questions that perplex investors and analysts are—how high and how fast will rates increase? There is no answer. It depends on the path of future inflation which of course is unknown. But, as always, investors will try to "read the tea leaves" and divine the answer. We believe the Fed and its chairman, Jerome Powell, are being straightforward with the public. I was fortunate to be with the Chairman last week when he spoke to a group of economists. He clearly was concerned about the path of interest rates, but his concern was tempered due to the strength of the economy. No Fed chair wants to create a recession, but they also cannot let inflation get out of control. Last week, we spent a good deal of time covering inflation, and we won't bore readers with a review of that topic again, but we want to remind them that there are many reasons for the current inflation and some will fall by the wayside over time. The Chairman did not say how high the next move would be, but he said the obvious—that it depends on the inflation statistics over the coming weeks. What he did say was that if the Committee felt it was necessary, they would not hesitate to hike by 50 basis points.

There are plenty of questions facing the economy and investors in addition to the path of interest rates. Two very important and interesting questions are what is happening in the U.S. labor force and is globalism going to recede? Both are vital to the economic wellbeing of the United States and its citizens. Next week, we will try to address these questions.

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