

Weekly Market Insights

April 18, 2022

A Difficult Week

Financial Markets

Financial markets slumped during the holiday-shortened week. The reasons will come as no surprise to anyone who has followed the markets for the past few months—inflation, war, disease, and the Federal Reserve—the market version of the Four Horsemen of the Apocalypse. Investors, at the moment, appear to be very risk averse.

As of Thursday's close, the Dow ended the week down 0.78%, the S&P 500 closed down 2.13%, and the NASDAQ closed down 2.63%. In many respects, it is understandable that the four concerns mentioned above are daunting, and, as both long and short-term interest rates start to climb, a viable alternative investment comes into play—bonds.

The Economy

War and disease are both very difficult to analyze. No one knows when the war will end, and great medical minds have been stymied for two years about the path and mutations of the COVID pandemic. The latter, COVID, appears to be recurring in a less virulent manner, but the war shows no sign of ending.

Inflation is a problem, and we have written about it quite a bit. Yes, the economy is very strong which has created a bulge in demand. Increased demand along with war-related

energy shortages have worsened supply constraints. This unhappy situation is a textbook inflationary condition. This leads us to the Federal Reserve. Readers can reread last week's papers to refresh on all the comments by Fed officials about how critical it is to get ahead of inflation. Simply, they must raise rates higher and faster than they, and we, had originally anticipated. Although, as always, it remains a mystery about how high and how rapidly they will rise. At the moment, it makes sense to put the most weight on what Chairman Powell has said publically—a 25 basis point increase expected at the next meeting. However, he warned that this is a very fluid moment, and if the situation warrants it, a 50 basis point move is not out of the question.

Both the economy and inflation are strong. Surprisingly, it would be a good thing for the economy to slow a bit to take some pressure off of prices, such as housing. Some analysts are suggesting that this is quite possible. If this should occur, it would take much of the pressure off the Fed.

Interestingly, while not too exciting, not much has changed from last week's paper.

We hope everyone had a very nice holiday weekend.

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