

Week in Review

Equity Markets:

The major market indices ended the week down, coinciding with the fourth week of the Iran War. The S&P 500 came down by -2.10%. Meanwhile, the Dow Jones Industrial Average lost -0.90% last week while the Nasdaq gave up -3.22%.¹

The S&P 500's Forward 12-month Price/Equity Ratio came down to 19.9 last week. It is now at its 5-year average while still above its 10-year average (18.9).²

Last week's market declines came about despite starting the week with very positive momentum, brought about by hopeful news on a possible peace agreement with Tehran. However, mixed signals throughout the week tampered down this positivity. The negative week coincided with the arrival of more US soldiers in the Middle East.³ Indeed, the fourth week of the Iran War coincided with the fifth week of declines for the S&P 500. Both the Nasdaq and the DJIA officially entered a correction, down 10% from their record highs set about 5 months ago.⁴

Fixed Income Markets:

Treasurys saw their yield curves widen last week amidst growing concerns over inflation in the near term, with the 10-year Treasury expanding by 5 basis points to 4.43%. Investment-Grade Corporates came down -0.23% while High-Yield Bonds declined by -0.47%.⁵

Fears over near-term inflation are being spurred on by rising prices for crude oil, which had risen above \$100/barrel by the end of last week. Along with fears of inflation are others for slower economic growth brought about from this oil spike.

Economic Updates:

The S&P Global Flash Composite Purchasing Managers Index (PMI) for March read at 51.4, which is an 11-month low as it comes down from February's score of 51.9. The indication is that inflationary pressures are rising alongside input costs, which has been viewed correlative to the start of the Iran War. Meanwhile, the University of Michigan's Surveys of Consumers recognized declines for Consumer Sentiment & Expectations alongside lower favorability toward Current Economic Conditions.⁶

Looking Ahead

Equity Markets:

Markets clearly appear to be led by developments in the Iran War. Wall Street very much seeks a de-escalation of the conflict. Alongside the humanistic desires for a cessation to the fighting, they want to avoid the very real economic costs at hand. Further, such geopolitical instability innately increases market volatilities, especially when a major factor of this new war is an energy crisis with global ramifications. Investors should monitor prices for Crude Oil, as this factor perhaps now directs broad market performance.⁷

Keep in mind that we are entering the last week of the Quarter and therefore could experience some choppiness in the markets driven by institutional trading. Also, this will be a shortened trading week, with the major markets closed for Good Friday.

Fixed Income Market

Geopolitical developments will further affect bond markets. The energy crisis is expected to lead to higher inflation. This could directly lead the Federal Open Market Committee to consider holding interest rates steady for the foreseeable future, with the distinct possibility of raising rates before the year is complete.

The overarching uncertainty is driving this volatility. Heightened uncertainty is contributing to ongoing market volatility, and the duration and impact of current global developments remain unclear. In this environment, investors may consider how different asset classes have historically responded to periods of volatility. Bonds, like all investments, carry risk but have traditionally exhibited different volatility characteristics than equities. Note that bond markets will also be closed on Good Friday.

Economic Updates:

The upcoming week features Nonfarm Payrolls being reported on Friday, the metric from which the Unemployment Rate is derived.⁸ Considering growing concerns over future Federal Reserve actions, this metric will be crucial to their meeting their "dual mandate" of managed, low inflation and maximum employment.

Other metrics to be reported this week include the Job Openings and Labor Turnover Survey [JOLTS]; Consumer Confidence from the Conference Board; the ADP Private Payrolls report; the ISM Manufacturing report; and the Challenger Layoffs report.

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
<https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/weekly-market-recap/>
- 2) FactSet Earnings Insight
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- 3) Charles Schwab
<https://www.schwab.com/learn/story/stock-market-update-open>
- 4) John Hancock Investment Management, LLC
<https://www.jhinvestments.com/weekly-market-recap#market-moving-news>
- 5) Nuveen, LLC
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- 6) T. Rowe Price
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- 7) LPL Research
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- 8) Seeking Alpha
<https://seekingalpha.com/article/4886914-wall-street-week-ahead>

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