Parkside Financial
BANK & TRUST

Monthly Market Update – February 2022

Provided by Asset Consulting Group

Global Economy

The escalating crisis in Ukraine following an invasion of Russian forces rattled global financial markets in February, with most equity and bond markets adding to their declines for the year. In response to the invasion, global leaders have announced a series of increasingly disruptive sanctions against Russia and Russian oligarchs. The sanctions have had immediate impact, sending the Russian ruble tumbling and prompting a temporary closure of the Moscow Stock Exchange. In terms of the global economy, the crisis has sent commodity prices higher on supply fears, adding to concerns that persistent inflation will erode global growth. Current economic data remains positive as economies reopen following Omicron, and global Purchasing Managers Indices, a measure of overall economic activity, rebounded strongly in February from the winter's coronavirus-induced slowdown. In the US, 4th quarter GDP was revised upwards and January payroll growth exceeded expectations. The conflict in Ukraine will continue to drive market volatility and require careful monitoring of potential impact to global growth from supply disruption or sanctions. March could be a pivotal month with investors hoping for a quick resolution to the conflict and waiting for Fed rate liftoff.

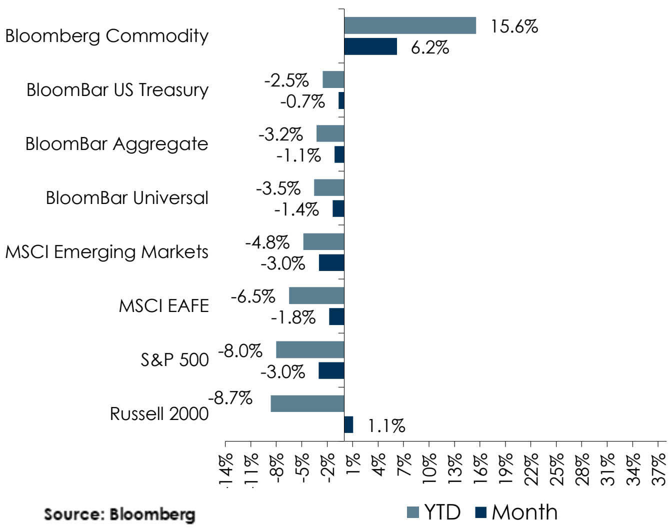
Global Markets

- **Global Equity –** Most global equity indices ended a volatile February with negative returns, with US large caps and European markets lagging while US small caps outperformed with positive returns. The emerging markets index also lagged, mainly due to a freefall in Russian equities. Index level P/E multiples on forward earnings continue to decline amid negative returns and supportive earnings, with valuations in non-US regions and US small caps falling to historic averages. Volatility should remain elevated while the crisis in Ukraine persists, and though history suggests risk markets often overreact to geopolitical crises, downside risks have grown. An extended conflict's impact to global inflation and growth would make the case for equities less compelling, particularly in Europe, but near-term global growth forecasts remain above-trend, and relative valuations continue to favor equities over credit given low interest rates and tight credit spreads.

- **Global Fixed Income –** Fixed income indices were generally negative as rates rose on US Treasuries and global government bonds. The 10-Yr US Treasury yield rose above 2% for the first time since 2019 but ended at 1.83% as the market priced in a more cautious Fed. Credit spreads moved moderately wider as the Ukraine conflict weakened risk assets, but remain low relative to history. With the combination of wider spreads and higher rates, core fixed income is beginning to offer a more attractive profile but remains challenged with nominal yields on the US Aggregate Index still short of forward inflation breakeven rates. Credit markets could see more volatility, but remain supported by above-trend growth, strong demand, and low default rates. Absolute Return strategies often benefit from volatility and can offer downside protection, while a marginally higher cash allocation provides portfolio flexibility.

- **Global Real Assets & Private Markets –** The fourth quarter was the best for US core real estate since the 1970s. All property sectors generated positive returns, with the industrial sector again significantly outperforming. Global PE activity set a new record in 2021 as managers deployed cash accumulated during the pandemic. The broad commodities index continued its recent outperformance as commodities surged following Russia's Invasion of Ukraine. The risk to supply has sent several commodities to multi-year-highs, with Russian and Ukrainian exports such as oil, natural gas, and wheat the most affected. CPI (+7.5%) and Core CPI (+6.0%) both rose from the prior month and continue to sit at multi-decade highs. Measures of future inflation expectations rose with the 10-year inflation breakeven up 13 bps to 2.62%.

Key Market Indices



Source: Bloomberg

	Current	21-Dec
US GDP (%)	7.00	2.30
US Unemployment (%) *	4.00	4.20
CPI (Core) (%)	6.00	4.90
Fed Funds (%)	0.00 – 0.25	0.00 – 0.25
10 Year UST Yld (%)	1.83	1.51
S&P 500 Div Yld (%)	1.40	1.27
S&P 500 P/E (Trailing)	22.45	26.21
Gold/oz.	$1,900.70	$1,828.60
Oil (Crude)	$95.72	$75.21
Gasoline (Natl Avg)	$3.70	$3.38
USD/Euro	$1.12	$1.14
USD/GBP	$1.34	$1.35
Yen/USD	¥115	¥115.08

*** Data as of January 31, 2022**

Source: Bloomberg

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