

Executive Summary



30,000'

- **Global Economic Expansion Continues** - The U.S., UK, and Canada are all expected to stay in mid-cycle expansion, with China experiencing a slower economic growth backdrop.
- **Strong Q4, 2021 for U.S. Stocks** - Stock performance was mixed overall with large caps again outperforming mid and small caps. REITs, commodities, and high yield bonds posted solid gains in 2021. Stocks in Q1, 22' posted their worst quarter since Q1, 20' – S&P 500 (-5.0%), DJIA (-4.6%), Nasdaq (-9.1%).
- **Real Yields Turn More Negative** - Nominal 10-year Treasury bond yields barely moved in Q4 and with rising inflation investors are seeing real yields on treasuries hit multi-year lows.
- **Global Economy Likely Past Peak Growth Rate** - The U.S. economy is likely still in mid-cycle expansion but heading towards late-cycle. Emerging markets are potentially more susceptible to health setbacks than developed markets due to healthcare access and infrastructure.
- **Higher Inflation Remains Sticky** - U.S. consumer strength is strong but persistent inflationary pressures may inhibit real growth domestically. The Consumer Price Index (CPI) inflation hit a 40-year high of 7.9%, for the trailing 12 months ending in February.
- **Labor Force Participation Stabilizes but Mismatch Still Exists** - Labor supply-demand gap still exists, with 2.5 million workers leaving during the pandemic. Some of whom have yet to return, especially older workers that were closer to retirement age at the start of the pandemic.
- **Wage Inflation Disproportionately Affecting Small Businesses** - NFIB's small business survey returned near record highs on the number of members raising wages and unable to fill open positions.
- **Corporate Profits Beat Expectations, Tougher Road Ahead** - Near 50% rebound in corporate earnings during 2021, beating expectations. However, profit margins are back to all-time highs and with unusually high wage pressures, upside earnings surprises could be harder to come by in 2022.
- **The Fed Signals Tightening** - The Fed has begun reducing accommodative monetary policy and has increased rate guidance in 2022. At the March 16th meeting, Fed Chair Jerome Powell announced a 0.25% rate increase on the Federal Funds Rate. By year's end, the Fed projects a terminal rate of 1.6-2.4%

ABOUT THE FIRM

Virtus Capital is an independent investment advisory firm serving high net-worth individuals, families, and business owners.

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Performance

Equity Benchmarks	Returns as of 3/31/22 (1-year returns are annualized)		Bond/Commodity Benchmarks	Returns as of 3/31/22 (1-year returns are annualized)	
	3 Month	1 Year		3 Month	1 Year
S&P 500	-4.95%	14.03%	Bloomberg US 1-5 Year Treasury	-3.37%	-3.96%
Dow Jones Industrial Average	-4.57%	5.14%	Bloomberg US 5-10 Yr Treasury	-5.99%	-4.53%
Nasdaq Composite	-9.10%	7.35%	Bloomberg US Long Treasury	-10.58%	-1.42%
Russell 2000	-7.53%	-5.79%	Bloomberg US 5-10 Yr Corporate	-7.03%	-4.74%
MSCI AC World Index ex USA Net	-5.44%	-1.48%	Bloomberg Municipal Bond	-6.23%	-4.47%
FTSE Emerging Index	-5.24%	-8.00%	Bloomberg Commodity Index TR	25.55%	49.25%

**Data Source: Morningstar and Vanguard Funds, as of 3/31/2022

Outlook

The U.S. remains in mid-cycle expansion, however, with financial conditions tightening and global central bank policies becoming less accommodative of expansionary growth, we expect overall market volatility to increase during 2022. The 2-year and 10-year treasury yields briefly inverted in late March, signaling a potential downward shift of gears in the domestic economy, and possibly forecasting a recessionary period in the future - albeit the correlation between yield inversions and timing of recessions are weak at best. Historically speaking energy commodities, real estate equities, and utilities have overperformed relative to peers during inflationary periods and mid-cycle expansions, with the exception of real estate generally performing better at the start of mid-cycle periods. In 2022, we expect the overall economic backdrop to weigh more heavily on low-quality equities that express low profit margins and weak cashflow. A thoughtful and diversified portfolio management approach that reflects strategic diversification and high-quality security selection will be needed to address the markets' current risk profiles throughout 2022.

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1Q 2022 | March 31, 2022

Quarterly Market Update – 1Q, 2022

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Sources

- (1) Benchmark return data - <https://personal.vanguard.com/us/funds/tools/benchmarkreturns>
- (2) Benchmark return data – www.morningstar.com
- (3) FOMC - <https://www.federalreserve.gov/monetarypolicy/fomcprojtable20220316.htm>
- (4) U.S. Bureau of Labor Statistics - <https://www.bls.gov/news.release/ppi.nr0.htm>
- (5) NY Times - <https://www.nytimes.com/2022/03/21/business/economy/powell-fed-inflation.html#:~:text=%E2%80%9CThe%20risk%20is%20rising%20that,period%20with%20more%20restrictive%20policy.>
- (6) CNBC - <https://www.cnbc.com/2022/03/06/us-crude-oil-jumps-to-125-a-barrel-a-13-year-high-on-possible-western-ban-of-russian-oil.html>
- (7) AAA - <https://gasprices.aaa.com/>