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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

For the first quarter of 2022, equity and fixed income returns were mostly negative. The equity markets faced a number of headwinds with the most notable issue being the current invasion of Ukraine by Russia. The bond market is facing both the negative impact of rising inflation as well as the decision by the Federal Reserve to begin tightening the money supply. While equity investors took some solace that the equity markets staged an impressive rally during the last three weeks of March, both equity and fixed income indices were mostly negative for the quarter, with returns down in the mid-single digit range.

As we look ahead, there are a number of factors which bear watching, with Russia's invasion of Ukraine at the top of the list. Other headwinds include the recent spike in energy prices, surging inflation, and interest rate hikes by the Federal Reserve. The uncertainty of mid-term elections in November also bears watching.

Clearly, these factors are all responsible for the current weakness in the equity market. If fact, some would suggest that despite these obstacles the market's resilience thus far has been rather impressive.

On the positive side, there is much to be hopeful about. For example, the detrimental impact of COVID seems to be easing as hospitalizations and deaths continue to decline across the country. The payroll processing firm, ADP, has reported that companies have added jobs at a solid pace in both the private and public sectors of the economy. The consumer is flush with cash and is continuing to spend. Pressures in our supply chain are starting to ease as reflected in declining backlogs, lower shipping costs and improved delivery times. This is further supported by the sharp drop in the Global Supply Chain Pressure Index from last December's peak.

Our focus at the moment is how well companies are navigating through these uncertain and ever-changing market conditions. At this time, it appears that our economy is still expanding by a healthy pace although the growth rate may be slightly less than what was forecasted at the end of last year. Corporate earnings growth remains solid for the best of breed in most industry sectors. Strong cash flow is resulting in higher dividend payouts and share repurchases.

With no recession in sight, we continue to remain positive on the future direction of equities.

Our outlook for fixed income is not as optimistic. As interest rates and bond prices tend to move in opposite directions, investors must brace themselves for low single digit returns. This supports our decision to maintain a rather conservative fixed income strategy for the time being.

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