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Geo-politics and inflation dominated headlines and exerted considerable influence during the first quarter of 2022. While these topics competed for investor attention, we experienced a welcome (but temporary?) break from our collective obsession with Covid-19 as the tremendous spike in case numbers due to the Omicron variant declined dramatically. Meanwhile, heightened uncertainty caused all asset classes to fall in value.

Geo-politics – Executive Summary from BCA Research[1]:

- While the direct economic effects of the war on global growth are likely to be modest – given that Russia and Ukraine represent less than 2% of global GDP in dollar terms – the indirect effects could be quite sizable.
- Two indirect effects stand out: the impact of the war on commodity markets; and the impact on financial conditions.
- Russia is a key player in the global energy and metals markets. Ukraine is also a sizable agricultural producer, as well as an exporter of certain specialized products such as neon, which is used in the semiconductor industry.
- Financial conditions have tightened moderately since the outbreak of the war. The only saving grace has been the significant decline in real government bond yields in developed economies.
- Ultimately, the war's impact on global growth will depend on how long it lasts. BCA's geopolitical strategists expect the conflict to escalate further in the coming weeks, warranting a somewhat cautious near-term stance.
- Stocks should rally in the second half of the year, as the war winds down and energy prices come off the boil. There are still many tailwinds supporting the global economy, which suggests that equity prices will probably be higher in 12 months' time.

Inflation – As expected, the Federal Open Market Committee (FOMC) raised the target interest rate by 0.25% following its March meeting. This was the first rate increase since November 2018, and the beginning of what the Fed expects to be a series of increases. Following are selected excerpts from Jerome Powell's March 16, 2022 press conference that caught our attention:

- The financial and economic implications [of Russia's invasion of Ukraine] for the global economy are highly uncertain.
- The economy is very strong, against the backdrop of an extremely tight labor market and high inflation, the committee anticipates that ongoing increases in the target range for the federal funds rate will be appropriate.
- Although the invasion of Ukraine and related events represent a downside risk to the outlook for economic activity, FOMC participants continue to foresee solid growth; ... the median projection for real [inflation adjusted] GDP growth stands at 2.8 percent this year, 2.2 percent next year, and 2.0 percent in 2024.
- Inflation remains well above our longer-run goal of 2.0 percent. Aggregate demand is strong, and bottlenecks and supply constraints are limiting how quickly production can respond. These supply disruptions have been larger and longer lasting than anticipated, exacerbated by waves of the virus here and abroad, and price pressures have spread to a broader range of goods and services. Additionally, higher energy prices are driving up overall inflation. The surge in prices of crude oil and other commodities that resulted from Russia's invasion of Ukraine will put additional upward pressure on near-term inflation here at home.

[1] BCA Research Global Investment Strategy, Mar 11 2022

- The median inflation projection of FOMC participants is 4.3 percent this year and falls to 2.7 percent next year and 2.3 percent in 2024; this trajectory is notably higher than projected in December, and participants continue to see risks as weighted to the upside.

With uncertainty high and markets firmly in correction mode, it is wise to remember that market corrections are normal and healthy. When markets experience dislocations, we see opportunities to rebalance our diversified portfolios and position for the market recovery. Our disciplined diversification affords us the ability to:

1. stay invested and weather storms of uncertainty
2. avoid being non-economic sellers of stock when liquidity needs and/or opportunities to high-grade portfolios arise; and,
3. diminish poor-timing risks as markets establish their new equilibrium

While this has been a challenging time, we have had meaningful market “snap-backs”. The week of March 14th was the best one week return since November 2020, confirming the importance of remaining invested despite disconcerting headlines and volatility. We understand that we are often most needed when markets are unsettled and welcome the opportunity to connect and discuss your own financial situation. Thank you for your continued trust in us.