AMJ Financial Wealth Management
Weekly Market Commentary
May 2, 2022

The Markets

Correction and contraction....

Investing during 2022 has been like running a forest trail and having unexpected obstacles appear every so often – a fallen tree, a swarm of biting flies, a bear with cubs – you get the idea. To-date, economic, coronavirus-related, and geopolitical events have taken a toll from stock and bond markets, as well as the U.S. economy. For example:

- **Prices were high as we entered the year and have continued to rise**. Last week, the *Personal Consumption Expenditures Price Index*, a broad gauge of inflation across the United States, reported that inflation was 6.6 percent in March 2022, up from 5.8 percent in December 2021.
- **The Russia-Ukraine War is pushing inflation higher**. Russia and Ukraine are major exporters of energy and agriculture products, and exports have been limited by the war. Consequently, the *World Bank's Commodity Market Outlook* forecasts that energy prices will rise by 50.5 percent and non-energy prices by 19.2 percent this year before moving lower again in 2023.
- **China is locking down cities to fight a surge of COVID-19 and snarling supply chains**. "Ships have been piling up outside Shanghai, the world's largest port, and other container docks across China as authorities have forced multiple cities into lockdown to counter the country's worst COVID outbreak since the pandemic began," reported Eamon Barrett of *Fortune*. Cross-border restrictions on trucking have also created issues.
- **The Federal Reserve began raising the fed funds rate to address inflation**. The Fed is expected to raise rates significantly this year as it works to reduce demand and lower inflation. When interest rates move higher, the cost of borrowing increases, and economic activity slows. As a result, some investors are concerned about the possibility of recession.

Recession fears were top-of-mind last week when the *Bureau of Economic Analysis* reported that U.S. gross domestic product (GDP) – the value of all goods and services produced in the country – contracted 1.4 percent during the first quarter of 2022. Greg Daco, chief economist of EY-Parthenon, wrote in *Barron's*:

"To the untrained eye, such a GDP contraction would raise concern that the economy is headed toward a recession…paradoxically, the main reason GDP contracted in Q1 is that the U.S. economy grew faster than its peers. Robust private sector activity driven by solid consumer outlays, accelerating business investment, and inventory restocking pulled in imports at an extremely rapid pace while a sluggish global economy meant exports fell back."

Major U.S. stock indices fell last week. The Standard & Poor's 500 and Nasdaq Composite Indices are in correction territory, down more than 10 percent for the year, and the Dow Jones Industrial Average is close to a correction, reported Ben Levisohn of *Barron's*.

Data as of 4/29/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-3.3%	-13.3%	-1.9%	12.0%	11.6%	11.5%
Dow Jones Global ex-U.S. Index	-1.8	-12.6	-13.7	2.2	2.6	2.8
10-year Treasury Note (yield only)	2.9	N/A	1.6	2.5	2.3	1.9
Gold (per ounce)	-1.6	5.0	8.4	14.3	8.8	1.5
Bloomberg Commodity Index	0.4	30.6	43.6	17.2	9.0	-0.8

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

VALUE STOCKS MAY BE CYCLING INTO FAVOR. For more than a decade, interest rates in the United States have been very low. During this time, growth stocks, which benefit from low rates, have outperformed value stocks. As of last Friday, the MSCI All-Country World Index (ACWI) Growth, which measures the performance of growth stocks, was up 9.51 percent for the last decade. The MSCI ACWI Value, which measures the performance of value stocks, returned 4.47 percent, over the same period.

It looks as though that may be beginning to change.

Growth stocks are shares of companies that are expected to grow more quickly than other companies. These companies often do not pay dividends. Instead, they reinvest any profits to grow the company quickly. The valuation of growth stocks may seem expensive; however, if the company grows fast the valuation may seem low and the company's share price may rise. Many technology companies fall into this category.

In 2022, growth stocks have languished. "High-growth technology stocks that sparkled in the coronavirus crisis have entered a bear market as shifting consumer habits and the prospect of sharp U.S. interest rate rises force investors out of one of the most lucrative trades of recent years…the prospect of rate rises has hurt low-profit, high-growth technology stocks because those companies' future cash flows look relatively less attractive," reported Laurence Fletcher of the *Financial Times*.

Value stocks are shares of companies which trade at valuations that are lower than company fundamentals – earnings, dividends, sales, cash flow, and other metrics – suggest they should trade at. Often these are mature companies that pay dividends. Some might even have been growth companies at one time.

Historically, there have been periods when value has outperformed growth. For example, this year, through last Friday, value stocks (MSCI ACWI Value, -6.69 percent) delivered better returns than growth stocks (MSCI ACWI Growth, -20.03 percent).

Recent performance doesn't mean it's better to value shares than growth shares or vice versa, as Saira Malik of *FT* explained. "Of course there have been times when value has beaten growth and vice versa – sometimes by wide margins and for extended periods. But betting on one style over the other based on the magnitude or duration of its past outperformance in any given timeframe is not a sound strategy for maximizing returns. The reason is simple: performance drivers are period-specific, hard to predict and unlikely to be repeated."

A good choice is diversification. Holding a well-allocated and diversified portfolio won't eliminate losses, but it can help investors manage risk during periods of market volatility.

Weekly Focus – Think About It

"In the long run, we shape our lives, and we shape ourselves. The process never ends until we die. And the choices we make are ultimately our own responsibility."

—Eleanor Roosevelt, former First Lady

Best regards,

Angela M. Bender

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.

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