

FLAGSTONE

FINANCIAL ADVISORS, INC.

MARKET REVIEW FIRST QUARTER 2022

What Happened:

In our Market Review from the first quarter of 2021, we predicted a good year for stocks in 2021. That is exactly what we got with stock returns over 20%. Then, in early 2022, things shifted. High inflation, supply chain disruptions and the Russian invasion of Ukraine added fear and uncertainty, pushing the markets into a correction (a drop of 10% or more). Growth stocks were hardest hit with many falling 20% or more. On top of that, the usually safe bond market suffered losses from rising interest rates of nearly 6%. Indeed, it was a tough way to start the new year.

You may have heard rumblings about a yield curve inversion signaling that the economy may slide into recession (defined as two quarters of negative GDP). Yield curves become inverted when short-term rates rise above longer-term rates. This condition typically occurs in a slowing economy not unlike ours currently. However, inversions do not always lead to recession and there are enough positive economic indicators, such as a strong labor market and healthy earnings forecasts, to suggest that recession is not imminent. Of course, we will continue to monitor the situation closely.

First Quarter 2022 Performance:

S&P 500 Index (large stocks)	-4.6%
Russell 2000 Index (small stocks)	-7.5%
MSCI EAFE Index (international stocks)	-5.9%
Bloomberg U.S. Aggregate Bond Index (bonds)	-5.9%

Prognosis:

Inflation continues to be worrisome and the situation in Ukraine has not helped. The conflict has increased costs of many commodities such as oil, natural gas, wheat, and the inputs to fertilizers used in crop production. These factors all adversely affect inflation. We do, however, expect inflationary pressures to lessen somewhat as the Federal Reserve raises interest rates and supply chain issues slowly dissipate.

Geopolitical issues will continue to rule our headlines, but thankfully, they do not have lasting effects on the market. Covid's impact to the economy is waning and business is mostly back to normal. Most importantly, solid corporate earnings should provide assurances of financial strength and the likelihood of further market advances moving forward.

Spring is upon us. Wishing you all health and prosperity in 2022!

SCK