Cambridge ADVISORS inc.
INVESTMENT MANAGERS

ECONOMIC UPDATE MAY 2022

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks and Bonds both finished April with significant losses. Large cap stocks in the S&P 500 index were down -8.72% for the month bringing their year-to-date loss to -12.92%. Small cap stocks in the Russell 2000 were down -9.91% leaving them with a year-to-date loss of -16.69%. International stocks in the MSCI EAFE index had a loss of -6.47% and emerging market stocks lost -5.56% so now their year-to-date returns are -12.00% and -12.15% respectively. Yields jumped further in April resulting in a -3.79% monthly loss and -9.5% year-to-date loss for the Barclays US Aggregate Bond Index.

COVID news is not currently the driving force in the economy or markets. It is still affecting us through the supply chain which is one of the factors contributing to inflation and economic growth. China is experiencing a major COVID related shut-down which is holding up much needed products and supplies, affecting several industries.

One factor weighing heavily on the markets this month was the GDP report for the 1st quarter. After a strong growth rate of 7.0% in the 4th quarter of 2021, the first quarter report showed an economy in decline with a negative growth rate of -1.4%. This is well below most analysts' expectations and particularly disappointing when we are in the midst of recovering from a pandemic related shutdown.

Inflation is proving to be the major factor affecting markets. Not only because of the strain it puts on the spending power of companies and consumers, but also because of the remedy to high inflation. The Fed will likely be forced to raise rates and withdraw liquidity from the economy at a time when the economy is already faltering. The longer it takes to get inflation under control, the greater the threat to economic growth. Even with inflation hitting levels not seen since the early 1980's, U.S. energy companies are met with significant regulatory hurdles, hindering their ability to increase production. Since energy is an important component in the production and transportation of every product sold, higher costs are increasing prices and squeezing profit margins. In addition, congress and the white house are pushing for additional federal spending which would add even more fuel to the inflationary fires.

Bond investors are beginning to believe rates are going to move higher than previously thought. We are seeing rates move higher across the yield curve as the 10-year US Treasury bond yield stands at 3.0% as of May 2. Analysts are also beginning to adjust their expectations for future yields higher as well. The Fed is poised to raise rates by 0.5% at the FOMC meeting on May 3-4, and markets are indicating another rate hike of at least as much at the next meeting in June. Markets had initially expected rates to rise 0.25% per meeting but high inflation has forced the Fed to move much faster regardless of the weakness in the economy.

Investors have valid reasons for concern and volatility is likely to continue. We continue to advocate against market timing and in favor of investing for the long term according to your risk tolerance. As always, please contact us with any questions or concerns.



17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET