

In focus

Last week, 2-year U.S. Treasury yields rose above 10-year yields, marking the first curve inversion since 2019 and the deepest inversion since 2007. Throughout the past half-century, the 2/10-year yield curve has provided a reliable leading indicator of recessions, usually within the next one to two years. Its strong track record is forcing market participants to take note. The current 2/10-year inversion has been fueled by the combination of 1) strong upward pressure on shorter-dated yields in anticipation of Federal Reserve (Fed) rate hikes; and 2) relative stability in intermediate and longer yields as participants question U.S. growth prospects under more restrictive monetary policy and in the face of rising geopolitical uncertainty.

As noted in our latest *Market Perspective*, the yield curve inversion should not be dismissed. It suggests the Fed faces a high degree of difficulty to rein in inflation without hampering the ongoing expansion. However, the Fed's policy shifts under discussion – namely, rate hikes and balance sheet reductions – will take time to implement. The ultimate impact of the Fed's tightening will likely take years to fully emerge. As it stands today, the Fed remains in a very accommodative stance and many other economic indicators, such as the unemployment rate, weekly jobless claims, Leading Economic Index, and manufacturing activity, suggest favorable economic conditions in the very near term. It is also worth noting that from a historical perspective, the S&P 500 has averaged an 11% return on a 12-month basis following the last seven curve inversions. Still, the U.S. yield curve's signals are key considerations, particularly with respect to what they say about medium-term growth outlooks. While the 2/10-year yield curve is just one economic indicator among many, it's an important one.

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A look back

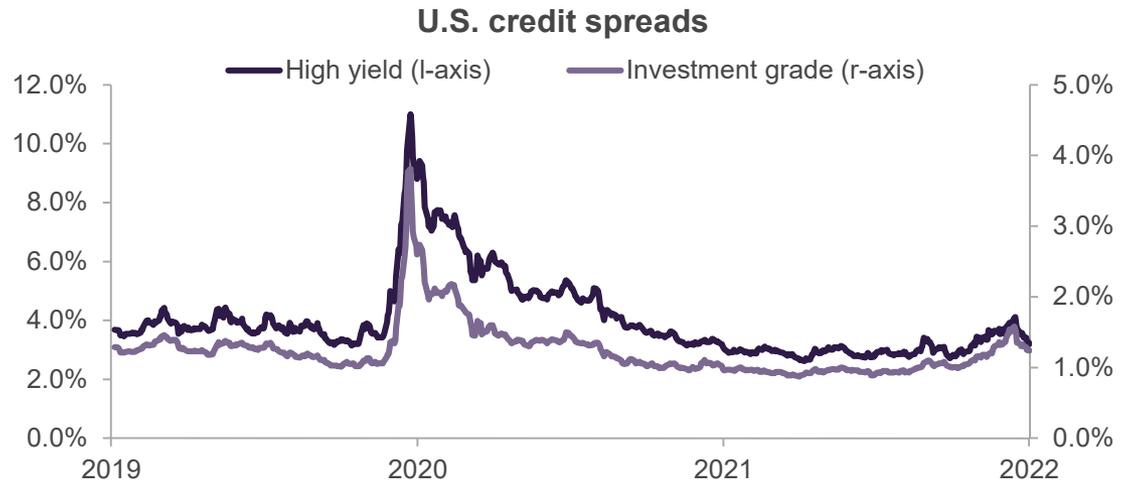
- Global equity markets advanced 0.5% last week, outpacing the S&P 500's 0.1% total return. The S&P 500 finished Q1 2022 down -4.6%, outperforming the MSCI ACWI by roughly 0.8%.
- The 2/10-year U.S. yield curve flashed concerns about future growth ahead of expected Fed rate hikes, inverting for the first time since 2019.
- U.S. nonfarm payrolls showed 431,000 jobs were added in March with previous months receiving upward revisions. The unemployment rate declined to 3.6%. Labor force participation rose to 62.4%.

A look ahead

- On Wednesday, market participants will study the latest FOMC Meeting Minutes from the March rate decision, seeking clarity over the Fed's willingness to raise rates by more than 25 basis points (0.25%) at the May 4 meeting.
- Russia and Ukraine will resume peace talks virtually this week.
- Economic releases: FOMC Meeting Minutes, Durable Goods Orders, Factory Orders, MBA Mortgage Applications, Initial Jobless Claims, Wholesale Inventories, ISM Services Index.

Chart of the week – Stability in U.S. credit spreads remains a positive indicator

While the current inversion of the U.S. yield curve is concerning, many significant market-based indicators suggest the U.S. economy remains on firm footing in the very near term. Over the past two weeks, investment grade and high yield credit spreads have tightened gradually. Credit spreads typically widen as participants grow concerned about imminent economic stress.



Data Source: Truist IAG, Bloomberg

Market Pulse

As of April 01, 2022

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	0.51	0.16	0.16	-5.21	6.28
S&P 500	0.08	0.34	0.34	-4.27	14.62
MSCI EAFE (net)	0.78	-0.48	-0.48	-6.36	0.17
MSCI Emerging Markets (net)	1.91	0.36	0.36	-6.64	-12.26
Dow Jones Industrials	-0.12	0.40	0.40	-3.72	6.95
NASDAQ Composite	0.65	0.29	0.29	-8.84	5.77
S&P U.S. REIT	3.90	2.00	2.00	-2.29	25.03
Bloomberg Commodity Index	-4.59	-0.43	-0.43	25.01	47.70
Bloomberg Aggregate	0.75	-0.27	-0.27	-6.19	-4.70
ICE BofA US High Yield	0.73	-0.29	-0.29	-4.79	-0.76
Bloomberg Municipal Bond Blend 1-15 Year	-0.07	0.00	0.00	-5.34	-4.24
ICE BofA Global Government xUS (USD Unhedged)	-0.05	-1.05	-1.05	-8.18	-11.33
ICE BofA Global Government xUS (USD Hedged)	0.10	-0.16	-0.16	-4.14	-3.90
JP Morgan EMBI Global Diversified	0.90	-0.24	-0.24	-10.24	-7.96

Rates (%)	4/01/22	3/31/22	12/31/21	9/30/21	6/30/21
Fed Funds Target	0.50	0.50	0.25	0.25	0.25
Libor, 3-Month	0.96	0.96	0.20	0.13	0.14
T-Bill, 3-Month	0.51	0.51	0.05	0.03	0.05
2-Year Treasury	2.42	2.28	0.72	0.28	0.25
5-Year Treasury	2.54	2.42	1.26	0.99	0.87
10-Year Treasury	2.37	2.32	1.51	1.52	1.44
30-Year Treasury	2.41	2.45	1.90	2.09	2.06
Bloomberg Aggregate (YTW)	3.00	2.92	1.75	1.56	1.50
Bloomberg Municipal Bond Blend 1-15 Year	2.37	2.36	0.87	0.84	0.76
ICE BofA US High Yield	6.11	6.02	4.31	4.08	3.85
Currencies	4/01/22	3/31/22	12/31/21	9/30/21	6/30/21
Euro (\$/€)	1.10	1.11	1.14	1.16	1.19
Yen (¥/\$)	122.86	121.37	115.16	111.57	110.99
Pound (\$/£)	1.31	1.32	1.35	1.35	1.38
Commodities	4/01/22	3/31/22	12/31/21	9/30/21	6/30/21
Crude Oil (WTI)	99.27	100.28	75.21	75.03	73.47
Gold	1,924	1,954	1,829	1,757	1,772
Volatility	4/01/22	3/31/22	12/31/21	9/30/21	6/30/21
CBOE VIX	19.63	20.56	17.22	23.14	15.83

U.S. style % total returns (S&P indexes)						
Week			YTD			
Value	Core	Growth	Value	Core	Growth	
-0.10	0.08	0.25	0.35	-4.27	-8.43	Large
-0.26	-0.04	0.19	-0.18	-4.29	-8.31	Mid
-0.02	0.09	0.20	-0.72	-4.70	-8.58	Small

Data Source: Truist, FactSet



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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg U.S. Corporate High Yield measures the USD-denominated high yield fixed-rate corporate bond market. Bonds are classified as high yield if they are rated below BBB by Moody's and S&P.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan EMBI Global Diversified index includes only USD-denominated emerging markets sovereign bonds and the traditional, market capitalization weighted method for country allocation is modified to limit the weights of index countries with larger debt loads by only including a specified portion of the eligible fact amounts of the debt outstanding.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

IA SBBBI U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBBBI Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

IA SBBBI U.S. 30-day T-Bill index measures the total return of T-Bills with a maturity of one month on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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