CETERA® INVESTMENT MANAGEMENT

COMMENTARY

May 5, 2022

Optimism Quickly Turns to Pessimism

- Equity markets sell-off a day after a strong rally.
- Investors were quickly reminded of the risks that persist.
- Diversification is important in times of volatility.

After the Fed meeting on Wednesday, stock markets rallied for their biggest one-day gain since 2020. The S&P 500 gained nearly 3%, but just a day later, investors reconsidered this optimism and markets lost more than 3% on Thursday with the S&P 500 losing more than 3.5%. Technology stocks were hit the hardest with the tech-heavy Nasdaq Composite falling nearly 5%, the biggest decline since June 2020. High-growth stocks, like technology stocks, sold off more because bond yields also rose. Bond yields move inversely to bond prices, so bonds were not a good hedge. The Bloomberg Aggregate Bond Index lost around 1% for the day. Now, both the S&P 500 and Bloomberg Aggregate Bond Index are down over 10% in 2022.

Wednesday's rally was explained by investors repricing a less aggressive Federal Reserve. The Fed said it was not actively considering raising rates by 0.75% in future meetings and appeared to be taking a more conservative approach to normalizing monetary policy relative to market expectations. However, as we stated in this morning's commentary, the risks around inflation did not change. Although the Fed seems to be erring on the side of caution and inflation pressures seem to be easing a bit, a lot of the factors pushing inflation higher remain.

Investors received a reminder of these risks this morning when data came out portraying more inflation and a weaker economy. Labor costs surged in the first quarter, unemployment claims rose and productivity was weaker than expected. We are watching the claims data carefully, but the other two data points are older, so we are not putting as much weight into them. We remain optimistic that inflation is easing, and supply chains are improving.

The other reason investors may be reconsidering their optimism is we saw some disappointing earnings reports from e-commerce and companies that benefited from consumers staying at home. Since these companies tend to have high valuations (their price per share is high relative to their earnings per share), investors are rebalancing their portfolios away from these companies. The shift makes sense as these high growth companies saw future growth downgraded with yields rising (future earnings are discounted by prevailing interest rates). The good news is that traditional brick-and-mortar consumer companies are seeing strong growth/earnings and can pass on costs to consumers. These companies have fared better in 2022 and dropped less in this selloff.

We remain cautiously optimistic as inflation will begin slowing, supply chains are improving, valuations are more attractive, the yield curve is steepening, and we believe that the Fed will prove less hawkish than the markets anticipate. At the same time, many inflationary factors persist. As such, we expect volatility to remain as the Fed and investors gauge this inflation data and where the economy is headed. One should not shun bonds in their portfolios either. Being shorter duration can mitigate some of the risk of rising bond yields and there is now more yield offered in bonds. Markets are forward looking and much of the rise in interest rates and bond yields may already be factored into their prices.

Your financial professional can help you navigate through periods of volatility and manage your unique investment goals and risks. We continue to recommend a diversified allocation to help dampen volatility risk.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

About Cetera® Investment Management
Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group
"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

Disclosures
Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

The Bloomberg US Aggregate Bond Index is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. Eligible bonds must have at least one year until final maturity, but the index holdings have a fluctuating average life of around 8.25 years. This total return index is unhedged and rebalances monthly.

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a large, broad-based, market-cap-weighted index of more than 2,500 common equities listed on the Nasdaq stock exchange. It is often seen as a stand-in for the technology sector and its performance.