MARKET OBSERVATIONS
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Beyond Pandemic

Coronavirus certainly has not been eradicated, but a transition to endemic from pandemic seems in sight. Even so, lingering impacts continue including supply chain challenges, labor supply/demand mismatches, higher inflation and slowing growth. And now comes invasion of the sovereign Ukraine. A humanitarian crisis is underway along with a potential shift in the geopolitical order that has prevailed since the end of the Cold War. Stock markets have moved lower globally while already high energy prices have risen further. Uncertainty has risen as well for inflation, growth and government policies. A review of some key indicators can provide perspective for investing yet ahead.

PERSPECTIVE

The pandemic brought high uncertainty and volatility to economies and financial markets. Table I shows extreme changes in important pandemic markers. Interest rates and stock prices initially dropped notably but then reached new highs for the two years of the pandemic. More recently, both rates and stock prices have pulled back from pandemic highs. Other markers remain at extremes with the price of oil well over $100 per barrel and the inflation rate at a 40-year high. The unemployment rate is back near pre-pandemic lows, themselves levels last seen in the 1960s. Government policies around the world shaped these outcomes and now face new challenges.

The full invasion of Ukraine by Russia is a non-economic event with considerable economic consequences. Russia has an economy 7.5 times and a population 3.5 times those of Ukraine. Globally, however, as shown in Chart I, Russia's economy and population represent small shares. However, Russia is an important producer of critical raw materials, and the impact of war already has been transmitted through higher commodity prices. Even before war, global oil supply was being challenged by rising demand. The shortfall in supply from sanctions imposed on Russian oil exports cannot be easily or quickly replaced from other sources. Sustained high energy prices from here could simultaneously raise inflation and slow real economic growth.

The wide swings in real U.S. economic growth during the pandemic are shown in Chart II. The extreme limits on activity induced a recession in 2020 but it was quickly followed by a strong recovery that continued through 2021. Prior to the war in Ukraine, the consensus 2022 outlook was for a slowdown but a positive rate of economic growth nonetheless. While the outcome of the war let alone its full economic ramifications are unknown at this writing, a higher level of uncertainty is at hand. Early estimates of the impact of even higher/sustained inflation and/or wealth dissipation through financial market losses suggest that growth would slow but a recession could be averted. To be watched at this time as well are the implications for monetary policy.

INVESTMENT IMPLICATIONS

Investors are faced with moving from one non-economic event, a pandemic, to another, war. Each raise their own challenges and responses. Juxtaposed as they are, however, the consequences of the first spill over to the second. The resulting higher level of market volatility alone may not be reason to alter investment strategy. At the same time and especially at a time of greater uncertainty, investment goals, horizons and risk tolerance must be certain. Portfolios then can be structured appropriately through pandemic, war and all else.

TABLE I

PANDEMIC MARKERS

	START (3/1/2020)	LOW	HIGH	CURRENT (3/7/2022)
BOND YIELDS U.S. Treasury 10-Year Notes	1.13%	0.50%	2.05%	1.72%
U.S. STOCKS Dow Jones Industrial Average	28,675	22,428	35,782	34,490
OIL Brent Crude per Barrel	$50.52	$19.33	$123.21	$123.21
UNEMPLOYMENT BLS One-Month Rate	4.4%	3.8%	14.7%	3.8%
INFLATION 12-Month CPI	2.3%	0.6%	7.5%	7.5%

CHART I

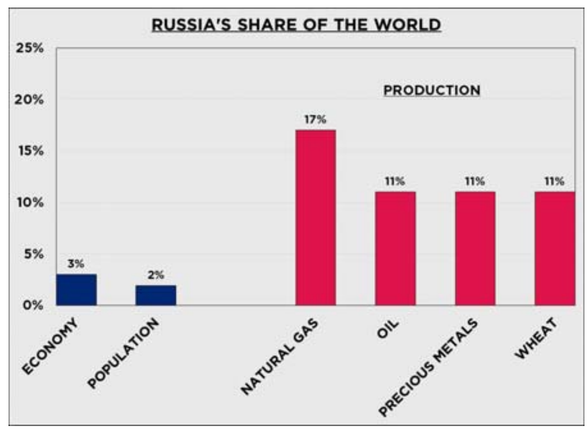

CHART II