

## March 21, 2022 – Weekly Notes

**Economic Commentary:**

With the Ukrainian War continuing to inject uncertainty into global investment decisions—but, in some respects, offering a relative steady-state of uncertainty as opposed to the rapid acceleration of developments that characterized the past four weeks—investors are renewing the intense scrutiny of the Federal Reserve and, perhaps, realizing more fully the hawkish-ness of last week's FOMC commentary. Just in case markets were inclined to read the FOMC wrong, Chairman Powell is doubling-down with an emphasis on the “we-will-do-whatever-it-takes-to-reduce-inflation” message. There will be a number of speeches this week from Fed Presidents and they will all be worth examining for any nuances in the policy stance, especially with respect to how concerns about economic growth may be brought into the debate. For the moment, the Fed seems assured that US economic growth is strong, the impact from Ukraine sanctions will be minimal and the notion of actually slowing down the economy to control inflation is a plausible approach; in other words, a confident expectation of a “soft landing.” The Fed, however, has had considerable (and understandable) difficulty in assessing the economy and its outlook during unusual events such as the 1997 Asian Financial Crisis, the 2020-21 Pandemic and, perhaps, the Ukrainian War. A series of 50bps increases in the Fed Funds rate, as mentioned by Chairman Powell in a speech to the National Association of Business Economists (NABE) this morning, would not give the Fed much ability to course-correct if their understanding of the economic dynamics is wrong and may be best understood (hopefully) as saber-rattling.

**Data to Watch:**

- Speeches by Fed Presidents Williams, Daly and Barkin, Tuesday March 22, Wednesday, March 23 and Friday, March 25 respectively.
- US Durable Goods Orders for February, released Thursday, March 24
- US Pending Home Sales, released Friday, March 25.

**Suggested Reading:**

- [https://www.wsj.com/articles/maryland-georgia-pause-gas-taxes-with-prices-near-record-highs-11647880317?mod=lead\\_feature\\_below\\_a\\_pos1](https://www.wsj.com/articles/maryland-georgia-pause-gas-taxes-with-prices-near-record-highs-11647880317?mod=lead_feature_below_a_pos1)
- <https://www.nytimes.com/2022/03/21/business/russia-roman-abramovich-concord.html>
- <https://www.theguardian.com/money/2022/mar/21/fuel-retailers-defend-high-costs-at-uk-pumps-after-drop-in-oil-prices>

**Investment Commentary\*:****Risk Markets Rally as Fed hikes interest rates**

U.S. stocks moved higher for the week, ending a two-week losing streak and reclaiming much of the ground lost over the past month. We believe, markets were supported by multiple factors, including falling oil prices of ~16% (taking cues that heavily energy dependent Europe will not be joining the ban), news that Russia had avoided defaulting on its sovereign debt (although there are other scheduled pending payments), and the outcome of the Federal Reserve's monetary policy meeting (hawkish tone to fight inflation). While fighting continued in Ukraine, investor sentiment was also supported during the week by continued negotiations to end the conflict and U.S. economic data that continuing claims for unemployment insurance fell to a 52-year low, showing continued strength in the labor market and underlying economy. Overall, stock market gains were widespread across the major indexes, with the tech-heavy Nasdaq Composite staging the biggest rally.

On the Central Bank front, we now have the start of only the fourth Fed hiking cycle in 27 years. U.S. Treasury yields shifted higher in response to hawkish signals from the Federal Reserve. (Bond prices and yields move in opposite directions.) Yield increases were most notable in shorter-maturity Treasuries, which are generally more sensitive to changes in monetary policy

**Around the Globe**

Chinese markets weakened during the week, but the tone at the end of the week helped stocks rally after policymakers pledged economic support. Chinese officials said they would introduce market-friendly policies and keep the capital

market running smoothly at a meeting attended by President Xi Jinping's economic czar. In a statement carried by state media, China's top financial policy body vowed to ensure stability in capital markets, support overseas stock listings, resolve risks around property developers and complete the crackdown on Big Tech "as soon as possible." It appears President Xi wants to ease tensions with the global investors although the recent unpredictable "rule of law" and governance announcements suggest actions speak louder than words.

Shares in Europe gained for a second consecutive week amid cautious optimism that negotiations between Russia and Ukraine could yield a peace plan. In local-currency terms, the pan-European STOXX Europe 600 Index advanced 5%. The Investment Office is monitoring eurozone bond yields which climbed modestly indicating a more "risk on" sentiment. The benchmark German 10-year bund yield at first rose on hope of progress in Ukraine-Russia peace talks and growing expectations that the ECB and Fed would pursue more-hawkish policies to dampen surging inflation. Yields moderated after ceasefire negotiations appeared to stall.

### **Uncertainty and Opportunity**

The Russian invasion of Ukraine introduced a tremendous amount of uncertainty into the markets. Consequently, there is a wider range of outcomes when trying to evaluate over different time periods the Ukraine impact on commodities, inflation, interest rates and growth. Frank Knight, American Economist, is best known as the author of the book *Risk, Uncertainty and Profit* (1921). He described the disliked world of uncertainty as a place where bad things might happen, but one had no ability to predict the likelihood, timing and outcome with modeling, statistical analysis or anything else in the toolkit. Several uncertain events of our recent past include [9/11](#), COVID Pandemic and now Ukraine. The markets are even more complicated with the Fed's apparent commitment to rate hikes. However, equities have weathered rate-hike cycles fairly well. Since 1983, the S&P 500 has returned an average of 5.3% in the six months following the first Fed rate rise of a cycle (Bloomberg).

### **Wealth Planning Commentary:**

#### **P&C Insurance: Preparing For A New Norm**

Property and Casualty (P&C) Insurance companies have been hit with record pay-outs due to a significant increase in major loss events such as tornados, flooding, and wildfires. That has resulted in skyrocketing P&C rates in high-risk areas – if coverage is available at all. Below are tips to consider as we face rising P&C rates:

Homeowners whose policies are expiring need to know what their options are. You may be unaware that the cost of your home's replacement coverage is slated to increase significantly or that the carrier no longer offers coverage in your State.

It's important for homeowners with loans against their property to avoid coverage lapses since loan agreements typically require them to have insurance. To avoid violating the loan terms, determine the policy renewal status at least three months before expiration. This should allow enough time to find another solution if the current carrier no longer provides coverage in the area or the premium is too high.

If you're struggling to renew policies or secure new ones, creative brokers can assist you. Some brokers believe there is a "home for every risk" and will work to find unconventional solutions. For example, one of those solutions could be securing surplus lines from eight carriers to insure a \$40 million home.

If guaranteed or extended replacement cost coverage is unavailable, those who'd like to ensure they can rebuild after a loss could attempt to insure their home for 10% to 50% more than their replacement cost to compensate for inflation.

Insurance costs have become hyper-localized and consider gradations on the risk spectrum. For example, in a town prone to wildfires, homes farthest from the brush that are also buffered by other homes will have the lowest premiums. Homes closest to the brush may be uninsurable. Premiums rise in between, ranging from homes farthest away with the biggest buffer to those closest to the brush.

*\*Source: Bloomberg*

*Disclosures*

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