Big Bears Bite

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Both rate and inflation bears roamed the markets in April, causing damage to portfolio valuations. The markets have been gorging on massive amounts of fiscal and monetary stimulus for so many years that once the supply of "food" (money) showed signs of withdrawal, the bulls retreated. The fixed income markets have been attacked as U.S. Treasuries and investment grade bonds experienced the most severe selloff since 1980. The confluence of U.S. GDP unexpectedly contracting in the first quarter, lockdowns in China leading to further supply chain disruptions, and a slowdown in global growth due to the Russian invasion of Ukraine has turned investor sentiment decisively negative. A major unknown undermining the markets remains the Federal Reserve's future monetary policies in an effort to constrain the money supply given the rapid increase in inflation. The ability for the Fed to engineer a soft landing may be challenging given the speed and size of rate hikes amidst the unwinding of the $9 trillion balance sheet. As a result, the bears may continue to roam the equity and credit markets as fears that the U.S. economy could enter a prolonged period of stagflation begin to percolate.