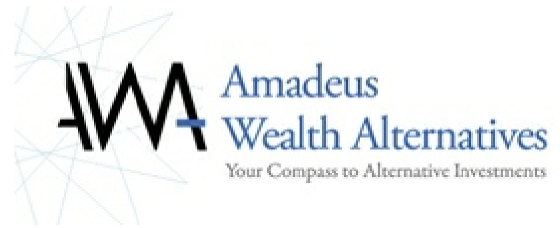
Amadeus Wealth Alternatives 1345 Ave. of the Americas 2nd Fl., New York, NY 10105 www.amadeuswealth.com



212-697-3930

Edward Papier, CIMA®, CFF

ep@amadeuswealth.com

In this week's recap: Stocks rally in the face of a changing landscape.

Weekly Economic Update

Presented by Ed Papier, March 21, 2022

THE WEEK ON WALL STREET

With the Fed embarking on a new course of monetary tightening amid continued fighting in Ukraine, stocks staged a powerful, broad-based rally last week.

The Dow Jones Industrial Average jumped 5.49%, while the Standard & Poor's 500 gained 6.16%. The Nasdaq Composite index soared 8.18% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, advanced 5.17%.[1,2,3]

STOCKS ROAR

After surrendering gains on Monday, stocks surged higher for four consecutive days. The rally was propelled by strong economic data, the outcome of last week's Federal Open Market Committee (FOMC) meeting, and reports that Russia made interest payments on its sovereign debt, avoiding technical default.

The uptrend began with a drop in oil prices and a lighter-than-expected wholesale inflation report. Stock prices initially buckled following Wednesday's hawkish FOMC announcement, but turned higher as investors interpreted the Fed's news as a welcome plan to combat inflation. Stocks extended their gains into the final two trading sessions, cementing their best weekly performance since November 2020.[4]

THE FED'S PLAN

For the first time since 2018, the Federal Reserve hiked the federal funds rate, increasing it by 0.25% and signaling that it expected to raise rates at a faster pace than originally outlined in December. Based on its projections of future fed fund rates, the Fed may implement seven quarter-point rate hikes this year and another three to four next year.[5]

In a statement following the FOMC meeting, Fed officials expressed rising concerns over inflationary pressures made more acute by the war in Ukraine. Members also indicated that they would soon announce a plan to reduce the Fed's $9 trillion balance sheet.[6]

THE WEEK AHEAD: KEY ECONOMIC DATA

Wednesday: New Home Sales.

Thursday: Jobless Claims. Durable Goods Orders. Purchasing Managers' Index (PMI) Composite Flash.

Friday: Consumer Sentiment.

QUOTE OF THE WEEK

"Everything must be taken into account. If the fact will not fit the theory — let the theory go."

AGATHA CHRISTIE

Market Index	Close	Week	Y-T-D
DJIA	34,754.21	+5.49%	-4.36%
NASDAQ	13,893.84	+8.18%	-11.19%
MSCI-EAFE	2,149.68	+5.17%	-7.98%
S&P 500	4,463.09	+6.16%	-6.36%

	Treasury	Close	Week	Y-T-D
	10-Year Note	2.14%	+0.14%	+0.62%

Sources: The Wall Street Journal, March 18, 2022; Treasury.gov, March 18, 2022
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, March 11, to Friday, March 18, close. Weekly performance for the MSCI-EAFE is measured from Friday, March 11, open to Thursday, March 17, close.
Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

Since the "Powell Pivot" was unleashed on global markets, precious metals have strongly outperformed so-called safe-haven portfolios, and in fact, as Bloomberg reports the classic 60/40 portfolio - a strategy named for the share allocated to equities and high-grade debt respectively, is down more than 10% this year, leaving it on pace for the worst drubbing since the financial crisis of 2008.

Why the sudden shift for a portfolio mix that is defined as 'balancing' risk, rather than aggregating it. The answer is both simple and terrifying for the world's central planners - Stagflation is back.

Unlike the last major crisis of faith in 60/40 books in 2008, though, the current environment is not driven by just a growth scare. Assets are being hammered by the double whammy of the risk of a stagnant economic expansion and fears of out-of-control 'non-transitory' inflation, a combination that could cause poor returns, or even losses, to extend for some time to come.

With rising stagflation risks, Goldman Sachs warns that investors face lower real returns and higher risks from 60/40 portfolios. There is pressure for higher equity allocations given the prospect of poor returns and less diversification potential from bonds. But while higher equity allocations increase the potential for attractive real returns in the long run, they increase the risk of large and fast drawdowns in the near term.

"You cannot count on the sort of investment returns seen over history for a period of time," said Chris Brightman, chief investment officer at Research Affiliates. "Bond yields, dividend and earnings yields are at a low starting point, and it means future returns will be low when compared to history."

During the so-called "lost decade" of the 2000s, the "60/40 portfolio generated a meager 2.3% annual return and investors would have lost value on an inflation-adjusted basis," Goldman Sachs Asset Management's Nick Cunningham, the vice president of strategic advisory solutions, wrote in October. "The very good returns of the past decade mean it is important for investors to establish more realistic return expectations," said Izabella Goldenberg, U.S. head of portfolio strategy at Goldman.

Andrew Patterson, senior economist at Vanguard Group Inc., said markets are verging on a period of low gains for the 60/40 portfolio. He estimated that annual returns over the next 10 years will be "south of 5% and our estimates have been grinding down in recent years, mainly driven by equities."

Equity and bond prices falling together may be a feature of the inflation shock. In past eras of supply-driven inflation, government bonds failed to offset equity losses, as prices in both markets moved together, said Jean Boivin, head of the BlackRock Investment Institute. "Investors will have to live with higher inflation and that will challenge the role of government bonds in a portfolio," he said. "Central banks will find it harder to contain inflation and also harder to ease if economic growth slows materially."

Markets have further repriced risk of stagflation, boosted by the commodities rally due to the Russia/Ukraine crisis – US 10-year breakeven inflation has reached the highest level since the 1990s, while real yields remain near all-time lows, resulting in a similar gap to that in the 1970s. These observations point to little optimism on long-term real growth and material concerns on inflation

risk.[7]

For those looking for alternatives, Amadeus recommends allocating to both traditional (private equity and real estate) and non-traditional alternatives. Categories include: Private debt, private equity and real estate on a primary and secondary basis, equipment and aircraft leasing, direct and co-investments, venture investing, direct secondaries, options trading (to hedge long positions), multi-alternative, General Partner interests, litigation finance, energy, and other special situations.

Ed Papier may be reached at 2126973930 or ep@amadeuswealth.com
www.amadeuswealth.com

Know someone who could use information like this?
Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost.

The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid. Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

Please consult your financial professional for additional information.

This content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. This material was developed and produced by FMG Suite to provide information on a topic that may be of interest. FMG is not affiliated with the named representative, financial professional, Registered Investment Advisor, Broker-Dealer, nor state- or SEC-registered investment advisory firm. The opinions expressed and material provided are for general information, and they should not be considered a solicitation for the purchase or sale of any security.

Copyright 2022 FMG Suite.

CITATIONS:

1. The Wall Street Journal, March 18, 2022
2. The Wall Street Journal, March 18, 2022
3. The Wall Street Journal, March 18, 2022
4. CNBC, March 18, 2022
5. The Wall Street Journal, March 16, 2022
6. The Wall Street Journal, March 16, 2022
7. zerohedge.com/markets/another-lost-decade-ahead-6040-balanced-books-suffer-worst-streak-2008