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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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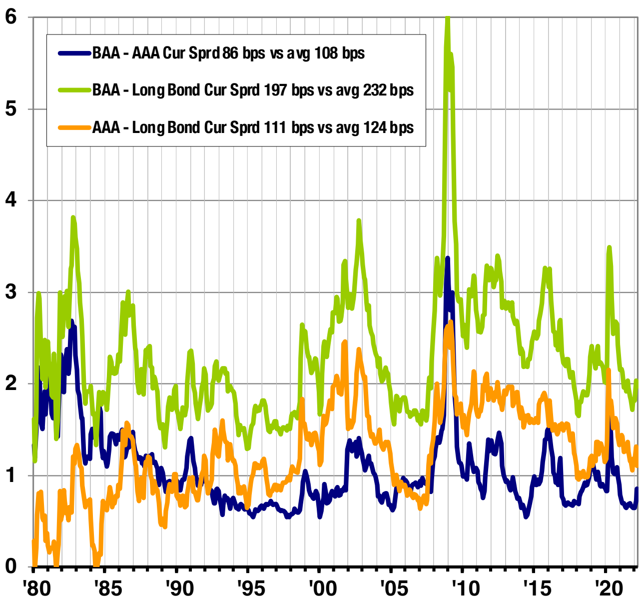
BOND SPREADS NARROWING

Treasury bond yields have been rising in recent weeks on concerns over stubbornly high inflation. Corporate bond yields have also risen, but not as rapidly as Treasury yields, as investors remain optimistic about the potential for lower default rates. As a result, spreads between corporate and Treasury bond yields have continued to narrow. The spread between AAA-rated corporate bonds and 10-year government bonds in March was 111 basis points, below the 35-year average of 124 basis points and down 20 basis points from February. The gap between the 10-year government bond yield and a BAA-rated bond (still investment grade) in March was 197 basis points, below the historical average spread of 232 basis points and down about 10 basis points from February. We watch these spreads closely for several reasons. From an asset-allocation standpoint, tight corporate bond spreads signal that prices are above historical fair value, and we may look to under-weight the segment in our model portfolios. From a broad-market standpoint, the changes in the spreads offer clues to the bond market's view of corporate financial strength, which appears to be improving given the narrowing spreads. This is important as the economy approaches a period of slower growth.

CORPORATE/GOVERNMENT BOND SPREADS (%)



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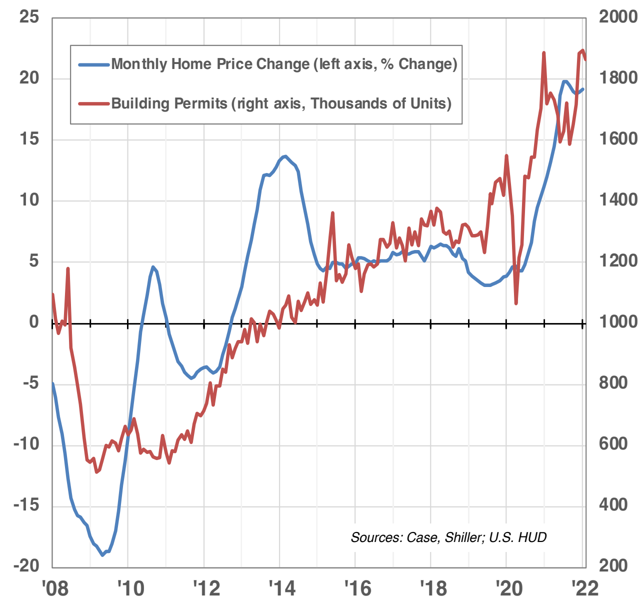
HOUSING PRICES MARCH UPWARD

The U.S. housing market has been an important contributor to the economic recovery from the pandemic. While high prices have cooled the market a bit, but many metrics remain positive. Indeed, the National Association of Realtors recently reported that existing home sales in February 2022 totaled 6.0 million at a seasonally adjusted annual rate -- down 7% month-over-month. The Commerce Department reported that new single-family homes were selling at a 772,000 annualized rate in February -- down from 860,000 in December 2021. Meanwhile, a leading indicator for the industry, housing permits, rose to an annualized 1.9 million in February, a pandemic-era high. Housing prices remain hot. The S&P/ Case-Shiller National Home Price Index for January 2022 showed that prices were up 19% from the prior year. The high prices have boosted housing inventories. According to the U.S. Census Bureau, there is a 6.3-month supply of existing homes for sale (versus the average range of 4.5-7.5 months). Until pricing pressures start to ease, we look for modest growth (at best) in the housing sector.

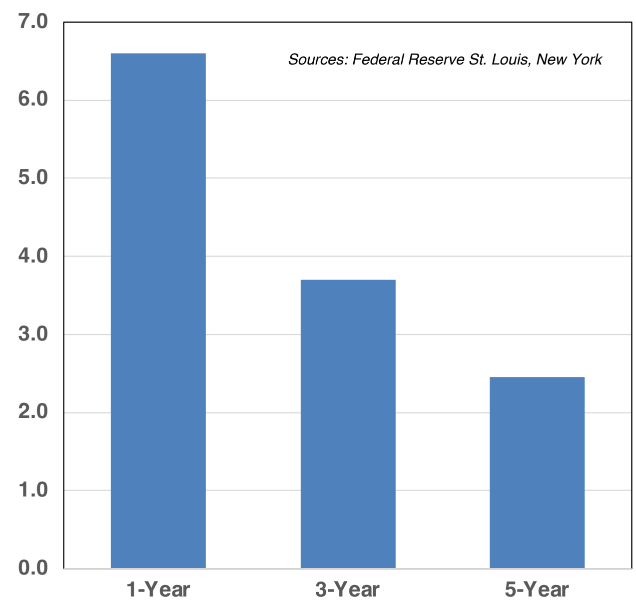
HOUSING MARKET TRENDS



INFLATION RUNNING HOT

Pricing pressures are hot and the Federal Reserve is responding. We track 21 inflation measures on a monthly basis. On average, they indicate that prices are rising at a 7.8% rate, ahead of last month's 7.0% as producer prices are rising again. Drilling down to core inflation — which we obtain by averaging core CPI, core GDP PCE, market-based PCE ex-food & energy, the five-year forward inflation expectation rate, and the 10-year TIPs breakeven interest rate — our reading is 4.5%, with the all-important five-year target rate at 2.45%. Recently, the Bureau of Labor Statistics reported an 8.5% increase in overall inflation, driven by 32% higher energy prices, 35% higher used-car prices, 12% higher commodity prices, and 9% higher food prices. The only category that is below recent historical trends is Medical Care Commodities and Services, which remains below 3.0%. According to surveys, consumers and investors expect inflation to decline back toward the Fed's target of 2.0% over the next five years. We look for a series of 50-basis-point rate hikes by the central bank at upcoming meetings as it tries to bring inflation under control.

INFLATION EXPECTATIONS (%)

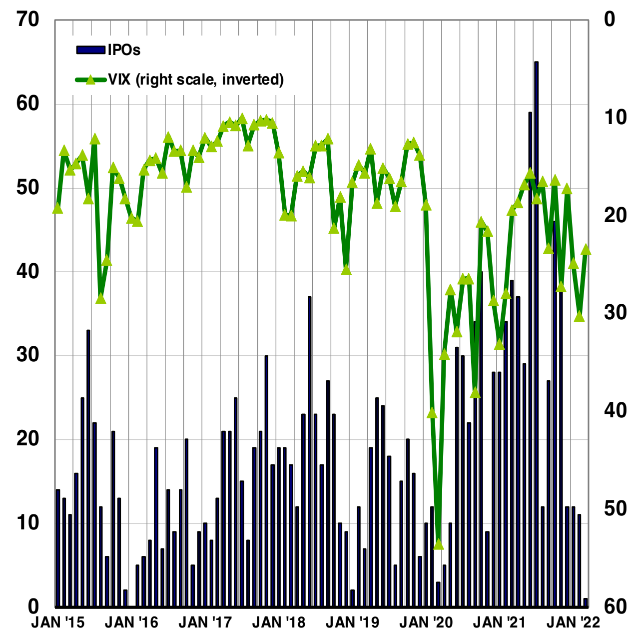


FINANCIAL MARKET HIGHLIGHTS

IPO MARKET GOES QUIET

Challenging investment conditions -- as well as the recent market performance of some high-profile IPOs -- led to light IPO activity in 1Q22 after several quarters of strength. Some 24 companies raised funds through IPOs in 1Q22, compared to 101 in 1Q21 and 99 in 4Q21. Including SPACs, approximately 81 entities raised funds. Secondary offerings dropped to just 63 in 1Q22, down from 324 a year earlier. Unicorns disappeared in 1Q22; by our tally, no Unicorns went public via IPOs in 1Q. The leading IPO sectors in the period included Technology, Healthcare, and Consumer. We expect the new-issue market to recover from a weak start to the year, as raising and allocating capital are among the core competencies of the U.S. economy. The IPO pipeline is in line with recent quarters, with about 150 companies having filed with the SEC (more than 400 including SPACs). In addition, there are some promising Unicorns in the pipeline. Given recent developments in commodity and energy markets, we anticipate an increasing number of issues from companies in these sectors over the remainder of 2022. We think the first few companies to raise IPO funds in 2Q will likely be profitable and well-financed, with familiar brand names.

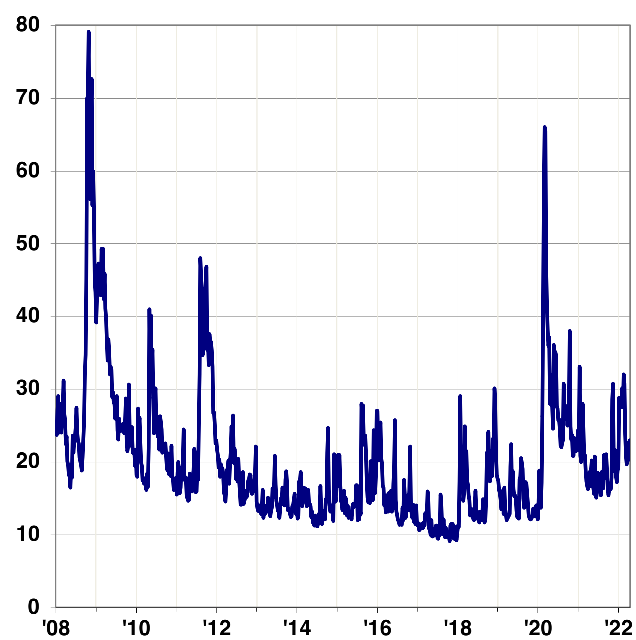
IPO ACTIVITY



FEAR RETURNING TO THE MARKET

Investors live in a world of new volatility. The onset of COVID-19 ended the good old days of low to mid-teens readings in the VIX Volatility Index (readings investors enjoyed for much of the 2013-2018 period). After the peak VIX reading of 85 in March 2020, the index had been slowly falling back toward the mid-teens, enduring speed bumps along the way such as a recession, new COVID waves, an extraordinarily divisive U.S. presidential election, and fears of inflation. In the past few weeks, however, nerves have been rattled by the Russian invasion of Ukraine, an inverted yield curve, prospects for aggressive Fed rate hikes, and 1Q earnings that aren't exactly blowing expectations out of the water. The S&P 500 is now down 7.8% year-to-date and again nearing a correction. That's not unexpected: since 1920, the index has recorded a 5% pullback three times a year on average and a 10% correction once every year and a half. On our S&P 500 valuation model, stocks had been priced for perfection (above the normal fair-value range) and are responding to higher interest rates and a slowdown in corporate profit growth. In this environment, we continue to recommend that investors focus on high-quality stocks, with strong balance sheets and experienced management teams.

VOLATILITY INDEX (WEEKLY CLOSE)



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
26-Apr	Durable Goods Orders	March	-2.1%	1.0%	1.0%	NA
	New Home Sales	March	772 K	770 K	775 K	NA
	Consumer Confidence	April	107.2	105	106	NA
27-Apr	Wholesale Inventories	March	2.5%	2.2%	1.8%	NA
28-Apr	Real GDP	1Q	6.9%	1.8%	1.0%	NA
	GDP Price Index	1Q	7.1%	7.0%	7.0%	NA
29-Apr	Personal Income	March	0.5%	0.5%	0.4%	NA
	Personal Spending	March	0.2%	0.8%	0.7%	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
11-May	Consumer Price Index	April	1.2%	NA	NA	NA
	CPI ex-Food & Energy	April	0.3%	NA	NA	NA
12-May	PPI Final Demand	April	1.4%	NA	NA	NA
	PPI ex-Food & Energy	April	1.0%	NA	NA	NA
13-May	Import Price Index	April	2.6%	NA	NA	NA