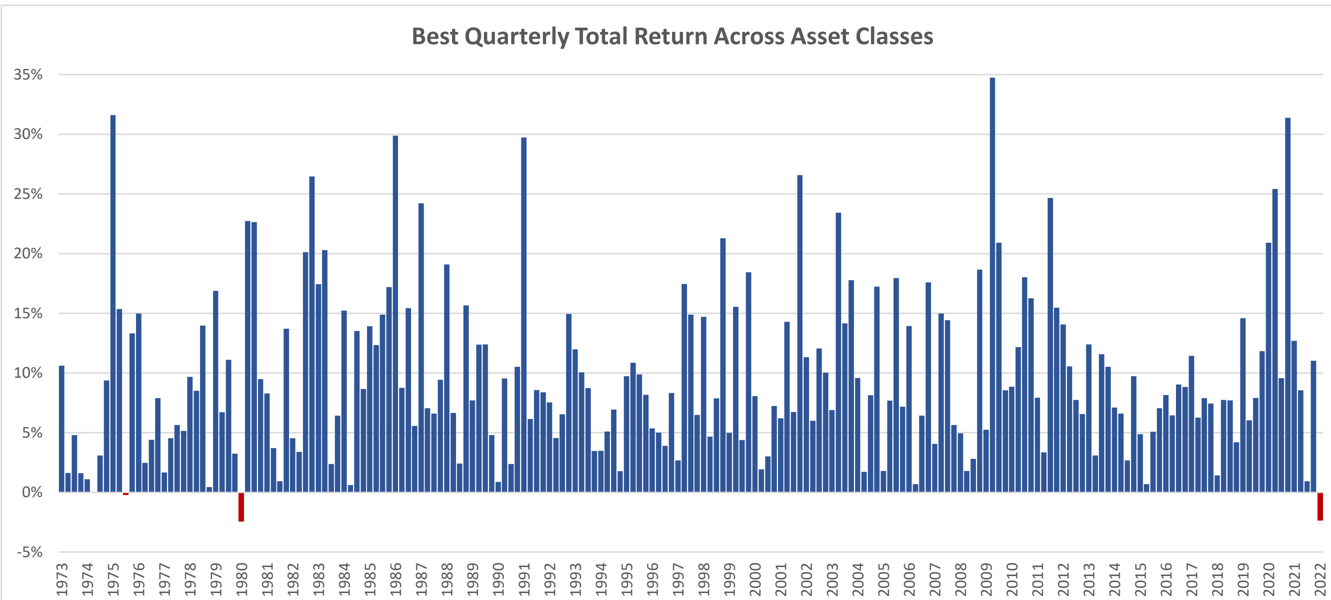
M&N Minute – April 19, 2022
When Everything Was Negative

The start of the year proved challenging for the S&P 500, which ended the first quarter down 4.6%. It was even worse for the bond market as the Bloomberg Aggregate ended down nearly 6%. This marked just the third calendar quarter in the past 45 years when the broad US bond market registered an even worse negative total return than the S&P 500. Of course, there are many other asset classes available to US investors but extending beyond just US large cap stocks and bonds didn't offer much respite. In fact, the first quarter of this year was ***the first time since 1980 that not a single major asset class offered a positive return!*** This chart illustrates the best total return on a quarterly basis across the major asset classes listed in the table below. The "best" quarterly return during 1Q22 was *negative* 2.3%, which matched the previous low of *negative* 2.4% in the first quarter of 1980. To put this in perspective, the average of the best quarterly returns since 1973 is nearly 10%.



Asset Class	Index	Starting Date	1Q 2022 Return	2019-2021 Annualized Return
Short-term Treasuries	ICE BofA 1-3Y Treasury	1Q 1976	-2.3%	+2.0%
Intermediate-term Treasuries	ICE BofA 3-5Y Treasury	1Q 1973	-4.5%	+3.0%
High Yield Bonds	ICE BofA High Yield	1Q 1985	-4.5%	+8.6%
U.S. Large Cap Equities	S&P 500	1Q 1973	-4.6%	+26.1%
International Developed Equities	MSCI EAFE	1Q 1973	-5.9%	+13.5%
U.S. Broad Fixed Income	Bloomberg Aggregate	1Q 1976	-5.9%	+4.8%
Emerging Market Equities	MSCI Emerging Markets	1Q 2001	-7.0%	+10.9%
U.S. Small Cap Equities	Russell 2000	1Q 1979	-7.5%	+20.0%
Long-term Treasuries	Bloomberg US Treasury Long	1Q 1973	-10.6%	+8.8%

While first quarter returns may be disappointing, it's important to keep things in perspective. The S&P 500 ended last year at an all-time high, which was bound to make this year's performance comparisons even more challenging. It also marked the end of an incredible 3-year run for markets from 2019-2021 when investors benefited tremendously from ultra-accommodative monetary policy and the unprecedented fiscal response from the U.S. and other governments to combat the economic challenges posed by the pandemic.

Our chief concern entering this year focused on the fact that nearly everything that had been a tailwind to equities early in the cycle has either peaked or is peaking and will soon fade or reverse. While historically this has not meant that returns need to be negative, such an environment has been associated with periods of lower forward returns and greater volatility. We continue to advocate for flexibility in countering the challenges that markets, economies, and investors face today.

The Intercontinental Exchange (ICE) Bank of America (BofA) 1-3 Year U.S. Treasury Index is a subset of the ICE BofA U.S. Treasury Index. The Index includes all U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with a remaining term to final maturity greater than one year but less than three years. Qualifying securities must have at least 18 months to final maturity at issuance, a fixed coupon schedule, and a minimum amount outstanding of $1 billion. The Index returns do not reflect any fees or expenses.

The Intercontinental Exchange (ICE) Bank of America (BofA) 3-5 Year U.S. Treasury Index is a subset of the ICE BofA U.S. Treasury Index. The Index includes all U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with a remaining term to final maturity greater than three years but less than five years. Qualifying securities must have at least 18 months to final maturity at issuance, a fixed coupon schedule, and a minimum amount outstanding of $1 billion. The Index returns do not reflect any fees or expenses.

The Intercontinental Exchange (ICE) Bank of America (BofA) U.S. Cash Pay High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt, currently in a coupon paying period, issued in the U.S. domestic market. Qualifying securities must have at least one year remaining term to final maturity as of the rebalancing date, at least 18 months to final maturity at the time of issuance, a fixed coupon schedule, and a minimum amount outstanding of $250 million. The Index returns do not reflect any fees or expenses.

The S&P 500 Total Return Index is an unmanaged, capitalization-weighted measure comprised of 500 leading U.S. companies to gauge U.S. large cap equities. The Index returns do not reflect any fees or expenses. The index accounts for the reinvestment of regular cash dividends, but not for the withholding of taxes.

The MSCI EAFE Index (EAFE) is a free float-adjusted market capitalization index designed to measure large and mid-cap representation across 21 Developed Markets countries (excluding the U.S. and Canada). The Index returns do not reflect any fees or expenses. The Index is denominated in U.S. dollars. The Index returns assume daily investment of gross dividends (which do not account for applicable dividend taxation) prior to 12/31/1998, as net returns were not available. Subsequent to 12/31/1998, the Index returns are net of withholding taxes. They assume daily reinvestment of net dividends thus accounting for any applicable dividend taxation.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged, market-value weighted index of U.S. domestic investment-grade debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of one year or more. Index returns do not reflect any fees or expenses.

The MSCI Emerging Markets Index (MSCI EM) is a free float-adjusted market capitalization index designed to measure large and mid-cap representation across 24 Emerging Markets countries. The Index returns do not reflect any fees or expenses. The Index is denominated in U.S. dollars. The Index returns are net of withholding taxes. They assume daily reinvestment of net dividends thus accounting for any applicable dividend taxation.

The Russell 2000® Index is an unmanaged index that consists of 2,000 U.S. small-capitalization stocks. The Index returns are based on a market capitalization-weighted average of relative price changes of the component stocks plus dividends whose reinvestments are compounded daily. The Index returns do not reflect any fees or expenses.

The Bloomberg US Long Treasury Index measures the performance of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury with a maturity greater than 10 years. STRIPS are excluded from the index because their inclusion would result in double-counting. The US Treasury Index is a component of the US Aggregate, US Universal, Global Aggregate and Global Treasury Indices.

For additional index disclosure information, please see: https://go.manning-napier.com/benchmark-provisions.

Source: Morningstar
Analysis by Manning & Napier