

Moneyball

The Federal Reserve's plan to aggressively stem inflation pressured equity markets last week. The S&P 500 ended the week -1.2%, the Dow was -0.2%, and the NASDAQ was -3.6%. The 10-year U.S. Treasury note yield increased to 2.704% at Friday's close versus 2.390% the previous week. The rise in the 10-year Treasury yield returned the yield curve to a more normal shape following last week's inversion of 2-year versus 10-year yields. Investors quickly re-priced the longer end of the yield curve following the release of the minutes of the Fed's March meeting which indicated the start of a balance sheet reduction could begin as early as next month.

The first quarter earnings reporting period begins this week. We should hear from most of the large banks and that should give insight to how movements in interest rates and the conflict in Eastern Europe are impacting the financial sector. In all, 14 companies in the S&P 500 Index are scheduled to report earnings this week. The current consensus for the first quarter is 6.1% earnings growth on 10.9% revenue growth.

In our *Dissecting Headlines* section, we look at the Fed's Balance Sheet.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-1.2%	-5.5%	Aggregate Bond Index	-1.6%	-7.3%
Dow Jones Industrial Average	-0.2%	-3.9%	U.S. Dollar Index	1.2%	4.0%
NASDAQ 100	-3.6%	-12.0%	WTI Crude Oil	-1.0%	30.6%
Russell 2000 (Small Cap Index)	-4.6%	-10.9%	Gold	1.1%	6.4%
International Stocks (MSCI ex-US)	-1.4%	-6.9%	Real Estate (US REIT Index)	-1.2%	-4.0%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Fed Balance Sheet

The Federal Reserve's balance sheet has assets and liabilities similar to any other bank balance sheet. The Fed can increase or decrease the size of its balance sheet as a tool to meet its core mandates of full employment and price stability, as well as maintaining the stability of the financial system.

Prior to the economic crisis sparked by the COVID pandemic, the Fed's balance sheet size was just over \$4 trillion. The Fed acted aggressively to backstop the financial system by purchasing U.S. Treasury and mortgage-backed securities. This helped lower interest rates, create financial liquidity for institutions and individuals, and allowed the government to put multiple financial support mechanisms in place to ease the burden brought on by the pandemic-driven business closures and social restrictions.

Now that the pandemic has eased the labor market has returned to near pre-pandemic levels, the Fed has been faced with fighting high levels of price inflation across most of the economy. The Fed has already stopped the bond purchases and has begun raising the Fed funds target rate to begin normalizing monetary policy. A third piece of this is reducing the size of the Fed's balance sheet which increased to just under \$9 trillion over the course of the pandemic. Through the open market operations conducted by the Federal Reserve Bank of New York, the Fed will begin selling up to \$95 billion of fixed income securities per month beginning as early as next month. The Fed currently holds \$5.8 trillion of U.S. Treasury securities and will sell up to \$60 billion per month. The Fed also holds \$2.7 trillion of mortgage-backed securities and will sell up to \$35 billion per month.

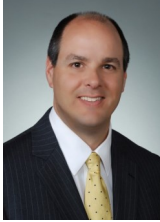
The combination of higher short-term interest rates initiated by raising the Fed fund target rate and the open market sales of longer-term government and mortgage-backed bonds should raise interest rates across the yield curve in an effort to reduce liquidity and stem the rise in prices. The reduction in the Fed's balance sheet is also a prudent action to let investors absorb the government debt securities and allow the Fed to save balance sheet capacity for the future.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of experience in the investment management industry. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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