Weekly Market Commentary

April 18, 2022

Home Stand

A mixed start to first quarter earnings reporting and two key inflation reports sent equity markets lower last week. The S&P 500 Index ended the week -2.1%, the Dow was -0.8%, and the NASDAQ was -3.0%. The 10-year U.S. Treasury note yield increased to 2.828% at Thursday's close versus 2.704% the previous week. The steady rise in Treasury yields has also pushed 30-year mortgage rates above 5% for the first time since 2018.

The March Consumer Price Index report showed retail prices +8.5% year-over-year and the March Producer Price Index report showed wholesale prices +11.2% year-over-year. Higher energy prices were key contributors in both reports.

The first quarter earnings reporting period accelerates this week with 69 companies in the S&P 500 Index scheduled to report earnings. The current consensus for the first quarter is 6.3% earnings growth on 10.9% revenue growth versus 6.1% earnings growth on 10.9% revenue growth at the start of the earnings season.

In our *Dissecting Headlines* section, we look at the recent rise in mortgage rates.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	-2.1%	-7.5%	Aggregate Bond Index	-0.7%	-8.0%
Dow Jones Industrial Average	-0.8%	-4.7%	U.S. Dollar Index	0.5%	4.5%
NASDAQ 100	-3.0%	-14.7%	WTI Crude Oil	8.8%	42.2%
Russell 2000 (Small Cap Index)	0.5%	-10.4%	Gold	1.4%	7.9%
International Stocks (MSCI ex-US)	-0.8%	-7.7%	Real Estate (US REIT Index)	-0.7%	-4.7%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Mortgage Rates

One benefit to homeowners during COVID was a sharp drop in mortgage rates. This made home ownership more affordable for first-time buyers and those who wanted to move into larger houses to accommodate working from home. It also made refinancing of higher interest mortgage possible, either to lower monthly payments, shorten the term of the mortgage, or provide cash-out financing. For homeowners today, that benefit has now disappeared as 30-year mortgage rates have risen above 5% for the first time since 2018.

While several economic inputs go into determining mortgage rates, one of the key factors is the 10-year Treasury yield. When the Federal Reserve recently indicated it would start reducing its balance sheet, yields on the 10-year Treasury bond increased in anticipation of the market needing to absorb the sale of up to $95 billion in Treasury and mortgage bonds each month. This also sent rates on mortgages higher.

The increase in mortgage rates, even before the rise above 5%, has been slowing application activity. According to data from the Mortgage Bankers Association, mortgage applications have declined on a year-over-year basis for the past five weeks and 10 out of the 14 weeks so far in 2022.

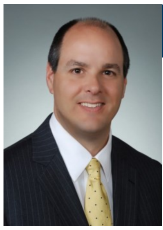
A shortage of homes for sale in many markets has kept real estate prices high. The National Association of Realtors February Existing Home Sales report showed only a 1.7 month supply of homes available versus a more normal supply of 4 to 5 months on average. Median existing home prices were 15.0% higher year-over-year in February, representing the 120th consecutive month of year-over-year gains. An increase in mortgage rates without a corresponding decline in home prices can create an affordability issue for many homebuyers and is not likely sustainable.

The next data points to watch are the Mortgage Bankers Association's Applications Index, which is released each Wednesday, showing mortgage application activity, and the National Association of Realtors' Existing Home Sales report for March, also scheduled for Wednesday, showing home purchase activity and pricing.

The NovaPoint Team

Joseph Sroka, CFA, CMT / Chief Investment Officer / jsroka@novapointcapital.com

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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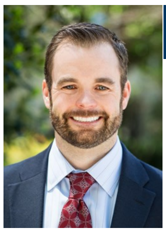
Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet 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).

Timothy Benbow, CFP / Managing Director & Portfolio Manager / tbenbow@novapointcapital.com

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.