
PrivilEdge – Wellington Large Cap US Research (M share class)

Newsletter

Active Strategy • Equities

30 April 2022

MARKET OVERVIEW

US equities suffered their largest monthly loss since March 2020. Risk sentiment was stifled by multiple factors, including the Federal Reserve's (Fed's) aggressive policy shift, persistent pressure on supply chain and inflation, and geopolitical risks from the war in Ukraine.

Growth stocks underperformed their value counterparts significantly in April.

The Nasdaq Composite Index registered its largest monthly decline since October 2008 amid surging Treasury yields and disappointing earnings results from some of the biggest technology companies.

Skyrocketing energy and food prices and strong consumer demand propelled inflation to a four-decade high; the headline Consumer Price Index (CPI) increased 8.5% annually in March (6.5% at the core level). Fed Chair Jerome Powell signalled that the Fed is likely to raise interest rates by 50 basis points in May and formally announce plans to begin reducing its 9 trillion US dollar (USD) balance sheet, as the bank accelerates efforts to slow economic growth enough to temper inflation without tipping the US into recession.

US GDP declined at a 1.4% annual rate in the first quarter, driven by pandemic-related impacts, a widening trade deficit, and lower government spending and inventory investment by businesses.

Of the 55% of companies in the S&P 500 Index that have reported first-quarter earnings results, 80% reported earnings that exceeded forecasts. The blended year-on-year earnings growth rate for the index was 7.1% and the forward 12-month price-to-earnings ratio stood at 18.1.

The S&P 500 Net Total Return returned -8.7% for the period. Within the index, 10 of 11 sectors declined over the month. Communication services and consumer discretionary were the bottom-performing sectors, while consumer staples and energy were the top-performing sectors over the period.

PORTFOLIO OVERVIEW

The portfolio underperformed the index modestly in April.

Weak selection in consumer discretionary and financials was partly offset by selection in consumer staples and utilities.

Within information technology and consumer staples, the top relative contributors were an underweight position in NVIDIA and an overweight position in Sysco, respectively. Within consumer discretionary and communication services, the top relative detractors were overweight exposures to Amazon.com and Match Group, respectively. Shares of NVIDIA fell during the period as investors processed news that the Fed is expected to be more aggressive in its fight against inflation. Growth stocks such as NVIDIA could be hurt by rising interest rates. Additionally, supply chain issues in the chip market and fears of softening consumer demand for graphics processing units weighed on the share price.

Shares of Amazon fell after the company reported its first quarterly loss in seven years and slowest-ever quarterly revenue growth. The ecommerce giant is grappling with inflation and supply-chain problems. According to management, major investments in warehouses and staff during the coronavirus crisis were catching up with the company, as uncertainty grows around consumer spending.

Source: Wellington Management Company LLP.

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