Risk Management in Uncertain Times

With the escalation of war in the Ukraine and the global response, we want to remind you that PMA is here for you. As events unfold, our resources are fully dedicated to risk management with robust research and due diligence. From a macroeconomic perspective, we are analyzing geopolitical risk. In addition, our team of research analysts is thoroughly reviewing all issuers on an ongoing basis including an analysis of factors specific to recent developments.

Markets, both bond and stock, have responded to this past week's news with increased volatility, but the backdrop of strong economic and credit fundamentals remains in place. The developments in Ukraine occurred at a time of rising interest rates and inflation running at forty-year highs. These trends, along with rising geopolitical risks, were already resulting in downward pressure on stock and bond prices. We have seen markets rise and decline over the past week as investors digested quickly developing news in Ukraine. As we discussed in our Winter Market Outlook, we expect elevated volatility to continue in 2022. We also expect U.S. economic growth to remain healthy and to support markets in these turbulent times.

One important question is how these developments will impact the Federal Reserve and monetary policy. We expect the Fed to remain focused on U.S. employment and inflation and their actions will be data dependent. Inflationary pressures may increase as commodities such as oil, wheat, corn and metals are on the rise. While this may lead the Fed to hike rates more quickly, we see the Fed taking a balanced approach. We expect the Fed to remain on its course to hike rates multiple times in 2022, but on the margin, it will make policymakers more cautious. As a result, we see a stronger likelihood that the Federal Reserve will stick to a 0.25% move in March followed by fewer additional hikes through year-end than markets previously forecasted. The current consensus is for at least 5 rate hikes in 2022, down from over 6 hikes as recently as Friday, February 25.

We encourage you to reach out to your PMA contact(s) to address questions and concerns you may have. Thank you for your continued confidence in our team.