PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

February 11, 2022

2/11/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,738.06	-351.68	-1.00	1.82	-4.40	10.52
S&P 500	4,418.64	-81.89	-1.82	1.38	-7.29	12.82
NASDAQ	13,791.15	-306.85	-2.18	0.71	-11.85	-1.67
S&P MidCap 400	2,647.46	24.28	0.93	1.47	-6.85	4.43

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.51	Euro/Dollar	1.14	-0.35
5-Year	1.87	Dollar/Yen	115.88	0.53
10-Year	1.94	GBP/Dollar	1.36	0.53
30-Year	2.25	Dollar/Cad	1.27	-0.69

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Olympic corporate sponsors such as Coca-Cola, Visa, and Proctor & Gamble are household names. This Olympics, nearly 20 official international and national sponsors have been extremely quiet in their advertising blitz that usually begins months before the games begin. Halfway through these Olympic games, viewership is down 40% from previous winter games. In contrast to the Beijing Olympics, corporate America faces off Sunday night in head-to-head competition during the Super Bowl for best advertisement. More than 115 million people are expected to watch the Super Bowl, and that gets the attention of corporate ad dollars. With ads that play like movies and contain famous actors, they are expensive to produce. NBC, the host for the game, set a record asking price of $7 million per 30 second commercial, an increase from $5.5 million in 2021. In 1967, for Super Bowl 1, a 30 second spot cost $37,500. Advertising experts say the Super Bowl ads began to gain popularity in 1984 when Apple was set to introduce the Macintosh computer. The ad played like a movie and was directed by the well-known movie director, Ridley Scott. Companies pay big dollars for these spots because the ads have become part of the entertainment and attract the largest number of viewers.

Economy

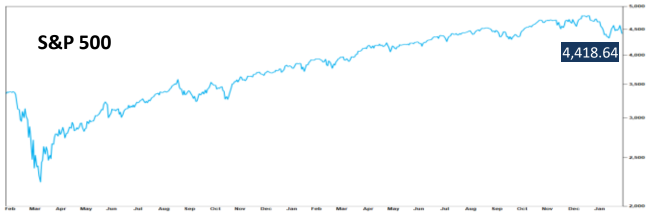
It was a light week for economic reports, but once again inflation figures dominated the headlines. The consumer price index (CPI) was released on Thursday and the headline figure surpassed expectations, rising 0.6% in January. Over the past twelve months, the CPI has increased 7.5%. This is the fastest pace in four decades and the average US household is spending an additional $276 per month. The "core" CPI also rose 0.6% and is now up 6.0% year-over-year. Energy and food prices increased 0.9% and tenants rent advanced .54% (largest monthly gain since 1992). Annual wage growth was 5.1% in January, fueled by a tight labor market and employers adding 1.6 million jobs over the past three months. In other news this week, weekly jobless claims declined from 239,000 to 223,000 during the week ending February 5th. The four-week moving average is now at 253,000. Finally, on Tuesday, the nominal trade deficit widened to an all-time high of $859.1 billion in 2021. The trade deficit with China increased 14.5% in 2021.

Fixed Income/Credit Market

With inflation increasing at the fastest pace in roughly four decades and the Fed well on their way to tightening monetary policy, fixed income has struggled over the first six weeks of 2022. Moreover, the Bloomberg U.S. Treasury index is down approximately 3.8% year-to-date through Thursday of this week, while U.S. corporate debt has declined 5.5%. Looking at the year-to-date 2022 U.S. fixed income ETF flows reveals that investors have been avoiding credit risk and shying away from duration risk. Furthermore, there have been negative net flows of approximately $10 billion from corporate debt, which equates to roughly 3% of market capitalization. Most of the corporate bond fund outflows have been from high yield debt, with close to $9 billion leaving the asset class as the Bloomberg U.S. Corporate High Yield Average OAS has increased 52 basis points thus far in 2022. It is important to note; however, that the high yield average OAS still resides 53 basis points below its 5-year mean due to strong corporate fundamentals. From a duration perspective, the ultra-short category has been the big winner this year with over $7 billion of net inflows, which equates to 6.7% of market capitalization.

Equities

The S&P 500 had a strong start to the week gaining 1.93% through Wednesday's close with many citing improving coronavirus trends and a slight easing of geopolitical tensions as catalysts for the move higher. The risk-on sentiment quickly changed over the following two days as investors digested recent inflation data and news on the situation in Ukraine. On Thursday, consumer inflation data came in above expectations increasing concerns over the possibility of a 50-basis point (bps) interest rate hike at the Federal Reserve meeting in March. Furthermore, FOMC member James Bullard added fuel to the fire by stating that he favors 100 bps worth of hikes by July. On Friday, stocks sold off after US Secretary of State Blinken warned that a Russian invasion of Ukraine could begin at any time. Although the market has historically ignored geopolitical tensions, the announcement came at a time when investor sentiment has shifted lower on expectations for a more aggressive Fed tightening cycle. The S&P 500 finished the week down 1.8% with energy and materials the only positive sectors.



Our View

January's inflation report again surprised economists with the Consumer Price Index climbing at the fastest pace in 40 years. Consumer prices jumped 7.5% year-over-year. The broadening out of price increases to almost all areas of the economy was perhaps more concerning than the rate of increase because it indicates that inflation could become more entrenched. The poor initial inflation number to start 2022 supports the camp of economists predicting annual inflation of over 4.0% for the year, which will put even more pressure on the Federal Reserve. The debate among Fed watchers turned to whether the first Fed Funds rate increase would be 25 or 50 basis points. Some market strategists have even speculated that the Fed will again accelerate tapering. From an economic and financial market perspective, the ultimate terminal rate in the rate tightening cycle and how quickly we get to it is more important than the initial size of the rate liftoff. Inflation lags economic growth and reflects a prior mismatch of demand and supply. So, the rapidly rising price levels that we see now ripping through the economy is a result from last year's ramp in consumer demand-driven fiscal stimulus and supply chain issues. Despite the dramatic shift in rate expectations and higher bond yields, the equity market has held up surprisingly well, given the potential for profit-taking due to outsized gains over the last few years. The Dow Jones Industrial Average is down only 3.0%, and the S&P 500 is off slightly more than 5%. Equities have shrugged off much of the rate concerns because of robust earnings growth. Fourth-quarter earnings are tracking approximately 30% higher year-over-year and 48% higher for 2021. Estimates for 8.0% earnings growth for 2022 have been solid. Although the major indexes have generally held up, there has been significant carnage in some areas of the equity market. Longer duration equities that either missed earnings estimates or guided lower for future earnings have been hammered. Rather than a significant selloff caused by rising inflation, we have seen more of a rotation out of growth and into shorter duration, more economically sensitive market areas.

COMING UP NEXT WEEK		**Consensus**	**Prior**
02/15 PPI ex-Food & Energy SA M/M	(Jan)	0.45%	0.50%
02/15 PPI SA M/M	(Jan)	0.50%	0.20%
02/16 Retail Sales SA M/M	(Jan)	1.8%	-1.9%
02/16 Industrial Production SA M/M	(Jan)	0.50%	-0.10%
02/17 Housing Starts SAAR	(Jan)	1,693K	1,702K
02/18 Existing Home Sales SAAR	(Jan)	6,038K	6,180K
02/18 Leading Indicators SA M/M	(Jan)	0.55%	0.80%

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