Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

April 29, 2022

4/29/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	32,977.21	-834.19	-2.47	1.96	-9.25	-3.18
S&P 500	4,131.93	-139.85	-3.27	1.51	-13.31	-1.89
NASDAQ	12,334.64	-504.65	-3.93	0.80	-21.16	-12.41
S&P MidCap 400	2,500.26	-82.95	-3.21	1.62	-12.02	-9.49

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.72	Euro/Dollar	1.05	-2.10
5-Year	2.96	Dollar/Yen	129.56	0.85
10-Year	2.93	GBP/Dollar	1.26	-2.24
30-Year	3.00	Dollar/Cad	1.28	0.52

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Q1 employment cost index released on Friday showed 4.5% wage and benefit cost inflation from the same period last year. The same index grew 1.4% from Q4 of last year to Q1 of 2022. According to the U.S. Department of Labor, in February there were 11.3 million job openings with only 6.3 million people unemployed and seeking work. The U.S. unemployment rate is 3.6% while inflation is now running at 8.5%. Adjusted for inflation, Q1 compensation actually fell 3.7% from Q1 2021. Because the U.S. is experiencing an acute labor shortage along with high inflation, workers are encouraged to seek jobs with higher pay. In order to attract applicants and retain existing employees, businesses are being forced to significantly increase compensation and benefits, relax job requirements, and allow more flexible working options. According to a ZipRecruiter survey provided to the Wall Street Journal, "About 64% of job switchers said their current job provides more pay than their previous job. Among these workers, nearly half received a raise of 11% or more, and nearly 9% are now making at least 50% more." Since labor is a significant cost to most businesses, the ongoing labor shortage consequently makes it difficult for businesses to preserve their profit margins and keep them from raising their own prices.

Economy

The most anticipated report this week was the first look at Q1 real GDP. Growth disappointed posting a 1.4% decline. Imports surged 17.7%, foreign trade subtracted 3.2% points from GDP and slower inventory building detracted from growth. On the positive side, private domestic demand advanced 3.7%, consumer spending increased 2.7% and business capex soared 9.2%. Overall, the economy actually produced less goods and services than in the prior quarter. In other news this week orders for durable goods increased 0.8% in March, which was fairly close to expectations. More importantly, core capital goods orders rose 1.0%, and core capital goods shipments gained 0.2%. On Tuesday new home sales disappointed, declining 8.6% in March to 763,000 units at an annual rate. Also, on Tuesday, the Conference Board's consumer confidence index fell slightly, from 107.6 in March to 107.3 in April. The labor market differential also dropped, falling from 47.1 to 44.6. Finally, on Friday, personal income posted a 0.5% advance in March while personal consumption increased 1.1%.

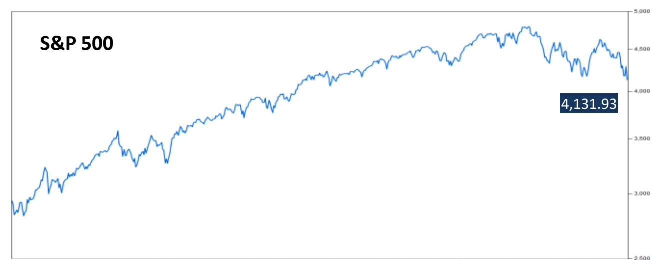
Fixed Income/Credit Market

Year-to-date (YTD) the U.S. 10-year Treasury yield has increased approximately 142 basis points (bps) to 2.93% but there seems to be a divergence of opinions on how much farther the tenor can climb. Nonetheless, it has been an extraordinary move higher and in the coming months economic data should help dictate the future path of Treasury yields. Currently, Bloomberg's forward curve matrix is forecasting an 8 basis point increase over a 6-month horizon. The U.S. is not alone in experiencing a steep back up in interest rates YTD. With the exception of Japan (+15.6 bps), 10-year yields for our global peers have increased anywhere from 93.9 bps to 160.4 bps. However, investors in the U.S. 10-year Treasury enjoy an outright yield advantage anywhere from 12.8 bps to 268.6 bps.

Global 10-Year Yields		
Country	**Current Yield**	**Current Basis point spread vs U.S.**
U.S.	2.9	
U.K.	1.903	-99.7
France	1.455	-144.5
Germany	0.935	-196.5
Italy	2.772	-12.8
Spain	1.97	-93
Switzerland	0.811	-208.9
Japan	0.214	-268.6

Equities

U.S. equities started the week higher, rebounding from a morning sell-off with no obvious catalyst; however, the rally was short-lived as Tuesday's trading session finished near its worst levels for the day. This broad pullback can be attributed to adverse investor sentiments regarding aggressive monetary policy and bond yield backups, growth and supply chain concerns caused by China's covid lockdown, and the Russia/Ukraine war. While Wednesday's trading session saw little-to-no change, better-than-expected results and guidance from the technology sector and communication services sectors, especially Meta, helped US equities finish just off best levels on Thursday. Friday's trading session erased the gain from the previous day with the S&P 500 index recording a year-to-date closing low, breaking through the $4,200 support level. The S&P 500, Nasdaq, and Dow finished the week at -3.27%, -3.93%, and -2.47%, respectively. All sectors finished in the red with growth and value in line with each other.



Our View

April was a challenging month for financial markets. Deepening inflation concerns and worries over the Federal Reserve's shift in monetary policy has driven interest rates substantially higher. The 10-year U.S. Treasury bond yield rose over 50 basis points last month. Higher rates have negatively impacted investor sentiment from the start of the year, causing pressure on equity returns. With the S&P 500 Index down roughly 10% and the Nasdaq approaching a bear market drawdown of 20%, it has been the worst January to April period for equities since 1973. The equity markets are coming off a remarkable three-year period that saw equity returns, as measured by the S&P 500, produce a compound annualized total return of 15.3%. A period of consolidation and reversion to the mean is not surprising, especially given the equity market's valuation at the start of the year. The forward price-to-earnings multiple was historically high at 21.7 times in December. When the equity market began its three-year run toward the end of 2018, the forward PE multiple for the S&P 500 was only 15.2 times. Notably, the forward PE for the market averaged roughly 18 times in 2018, but the equity market experienced a 17% drawdown due to the Federal Reserve rapidly hiking interest rates over inflation concerns (sounds familiar). At that time, 10-year U.S. Treasury bond yields were comparable to today, peaking in November at 2.93%. The two periods are quite similar, with the deterioration of equity market sentiment and negative returns due to higher interest rates and a shift in monetary policy. Inflation is a substantial difference today. During the tightening cycle in 2018, consumer price inflation peaked in July of 2018 at 2.9%, and the Fed quickly reversed course due to financial market instability. Today, inflation is much higher and seems to be impacting wage rates. The employment cost index in the first quarter is up at an alarming rate of 4.5% (y/y). Given the current inflation dynamic, the Federal Reserve will follow through on the rate tightening cycle and be less sensitive to financial market volatility.

COMING UP NEXT WEEK		Consensus	Prior
05/02 Markit PMI Manufacturing SA (Final)	(Apr)	59.0	59.7
05/02 ISM Manufacturing SA	(Apr)	57.6	57.1
05/03 Durable Orders SA M/M (Final)	(Mar)	0.80%	0.80%
05/04 Markit PMI Services SA (Final)	(Apr)	56.2	54.7
05/05 Productivity SAAR Q/Q (Preliminary)	(Q1)	-1.0%	6.6%
05/06 Nonfarm Payrolls SA	(Apr)	375.0K	431.0K

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