PEAPACK PRIVATE

Wealth Management

The Weekly

Economic & Market Recap

March 11, 2022

3/11/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	32,944.19	-670.61	-1.99	1.95	-9.34	1.41
S&P 500	4,204.31	-124.56	-2.88	1.47	-11.61	6.95
NASDAQ	12,843.81	-469.63	-3.53	0.77	-17.90	-4.14
S&P MidCap 400	2,570.76	-44.71	-1.71	1.55	-9.48	-1.85

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.75	Dollar/Euro	1.09	-0.17
5-Year	1.95	Yen/Dollar	117.27	-2.09
10-Year	2.00	Dollar/GBP	1.30	-1.48
30-Year	2.36	Cad/Dollar	1.27	-0.07

Source: Bloomberg/FactSet

What Caught Our Eye This Week

February's seasonally adjusted Consumer Price Index (CPI) rose 0.8 percent for the month and 7.9 percent in the last year. Yesterday, the nationwide average price for regular gas hit $4.32 per gallon, seven cents higher than the previous day. These developments along with any increase in interest rates at the Federal Reserve Open Market Committee's (FOMC) meeting next week would typically portend difficulty for the consumer. Hypothetically, should energy prices double this year it could conceivably wipe 3 points of growth off the Personal Consumption Expenditures (PCE) price index, with the impact largest for low-income consumers. However, individuals and households may be in better shape today than over the last few years. They are enjoying rapid wage growth – the top three income quintiles who do 80% of the spending have seen an increase enough to offset a doubling in energy prices. In addition, they had saved over $2.2 trillion (more than 15% of PCE). Credit card holders reduced their outstanding balances by approximately 15% during the first year of the pandemic and payment rates remain above normal levels. In fact, households could afford to add $125 billion to their card balances without meaningfully impacting their ability to service the debt. Consumers remain in a highly liquid position and do not yet show signs of strain.

Economy

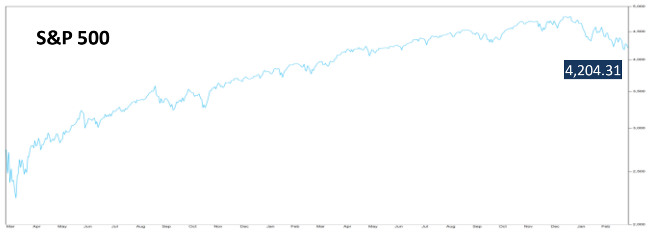
The economic headliner this week was once again the Consumer Price Index (CPI), which was released on Thursday. The CPI in February rose 0.8%, which was very close to analyst's expectations. Over the past 12 months, the CPI has soared 7.9%. This is the fastest pace in four decades, and only surpassed by the 8.4% advance printed in January 1982 when the nation was in recession. The "core" CPI also increased, rising 0.505%, and is now up 6.4% year-over-year. New vehicle prices rose 0.3%, energy prices surged 3.5% and food prices gained 1.0%. Gas prices soared 6.6% and are now up 38% over the past 12 months. In other news this week, the JOLTS report (job openings and labor turnover survey) showed 11.3 million job openings on the last day of January. The "quits" rate declined to 2.8% and over the past 12 months there is now a net employment gain of 6.4 million. Initial jobless claims were posted on Thursday and increased from 216,000 to 227,000 during the week ending February 26th. Finally, on Friday, the University of Michigan consumer sentiment index dropped from 62.8 in February to 59.7 in the preliminary March report.

Fixed Income/Credit Market

U.S. Treasury yields moved higher throughout the week resulting from inflation expectations and further developments stemming from the Russia-Ukraine crisis. The 2-year and 10-year Treasury Notes ended the week at 1.75% and 1.99%, respectively, flattening the 2/10 spread by 0.9 basis points (bps) to 24.5 bps. Leading up to next week's FOMC meeting where the rate hike is widely anticipated to be 25bps, the front end of the curve continues to rise faster than tenors further along the curve. Furthermore, the CDX IG 5-year Index, a measure of credit risk, peaked earlier this week at 77.81, which is the highest level since June of 2020. Investors withdrew $5.4 billion from US corporate investment grade bond funds, making it the largest weekly flight from corporate bonds since April 2020. This is a result of many corporations discontinuing operations in Russia due to both severe economic sanctions and business risk.

Equities

On Monday, U.S. equities sold off significantly with the S&P 500 logging its worst day since October 2020. There was a midday rally on Tuesday as Ukraine no longer insisted on NATO membership, but that was short-lived amid commodity and stagflation fears. On Wednesday, the S&P 500 and Nasdaq logged their best day since June 2020 and March 2021, respectively. There was no specific cause for this rebound, but renewed hope for diplomatic resolution in Ukraine may have played a role. The Thursday and Friday sessions were relatively uneventful as the market remained sensitive to geopolitical headlines. The S&P 500, Nasdaq, and Dow finished the week down by -2.88%, -3.53%, and -1.99%, respectively. The energy sector was the only one in the green gaining 1.89%. Value outperformed growth, while small cap outperformed large cap stocks.



Our View

According to the most recent release of U.S. CPI, headline inflation reached 7.9% year-over-year and was the highest figure in four decades. Inflation was already running hot prior to the supply shocks caused by the horrific Russian invasion of Ukraine due to frayed supply chains caused by the pandemic and the incredibly accommodative monetary and fiscal policy implemented since early 2020. With monetary and fiscal policy now set to tighten and inflation running hot, there is little doubt that there will be headwinds to economic growth moving forward. Some market participants have recently hinted that the U.S. economy could enter a period of stagflation, where inflation is elevated, and growth is slow. The last major bout of stagflation in the U.S. occurred during the 1970s. It was caused primarily by the departure from the gold standard, which lead to the devaluation of the U.S. dollar, two energy spikes and the overhang of the massive amount of stimulus that was issued in the 1960s. Rising inflation and tightening financial conditions are not making it easy for the Fed to navigate the current economic and market environments. But, there is hope as the Fed has learned many lessons from the prolonged inflationary period of the 1970s and will use its expanded toolset diligently moving forward in light of the current challenges. Moreover, we expect inflation to rise over the next few months due to commodity supply chain shocks; however, inflation should moderate towards the back half of 2022 as year-over-year base effects kick in, fiscal spending subsides, and supply chains recover. On a positive note, the U.S. is less sensitive to rising oil prices than in the past due to the massive increase in domestic production, and the U.S. economy is less energy-intensive than it once was. Fortunately, the U.S. has enough forward economic momentum to shoulder the impact of higher inflation for now. The Fed meets this coming week, and it is widely anticipated that it will increase the Fed funds rate by 25 basis points and could potentially increase rates by 1.50% to 1.75% over the course of 2022. The Fed will keep a close eye on credit spreads and financial conditions and adjust policy accordingly to prolong the economic expansion, but their job moving forward will not be easy.

COMING UP NEXT WEEK		Consensus	Prior
03/15 PPI ex-Food & Energy SA M/M	(Feb)	0.60%	0.80%
03/15 PPI SA M/M	(Feb)	0.75%	1.0%
03/16 Retail Sales SA M/M	(Feb)	0.35%	3.8%
03/16 Fed Funds Target Upper Bound	-	0.50%	0.25%
03/17 Housing Starts SAAR	(Feb)	1,698K	1,638K
03/17 Industrial Production SA M/M	(Feb)	0.50%	1.4%
03/17 Existing Home Sales SAAR	(Feb)	6,100K	6,500K
03/17 Leading Indicators SA M/M	(Feb)	0.20%	-0.30%

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