PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

June 3, 2022

6/3/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	32,899.70	-313.26	-0.94	2.00	-9.46	-4.85
S&P 500	4,108.54	-49.70	-1.20	1.55	-13.80	-2.15
NASDAQ	12,012.73	-118.40	-0.98	0.84	-23.22	-11.77
S&P MidCap 400	2,521.13	-18.71	-0.74	1.66	-11.29	-7.34

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.68	Euro/Dollar	1.07	0.11
5-Year	2.93	Dollar/Yen	130.73	2.83
10-Year	2.94	GBP/Dollar	1.25	-0.73
30-Year	3.09	Dollar/Cad	1.26	-1.37

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Bitcoin has declined 56% from its November 2021 high. There is a sub-segment of cryptocurrencies that aims to prevent the kind of wild fluctuations that are typical in the broader crypo market. "Stablecoins" such as Tether and USD Coin are backed "dollar for dollar" by reserves consisting of cash and short-term U.S. government securities. A small subsector of stablecoins called algorithmic stablecoins are not backed by safe mainstream assets. The most prominent of these algorithmic stablecoins is TerraUSA (Terra) along with its closely-affiliated stablecoin named Luna. Terra was pegged to the U.S. dollar by an unconventional financial engineering mechanism. If the price of Terra dropped below its $1 target value, Luna coins would be created to purchase Terra, thus increasing the demand for Terra and reducing the float of Terra coins. This would drive the price of Terra higher. The opposite would be done if the price of Terra rose above its $1 target value. Last month, a large seller of Terra created panicked selling in the cryptocurrency which broke the algorithmic system that functioned properly only when there was consistent demand for Terra. Terra at its peak last month was worth about $18 billion, but it has declined from $1 per coin to under 2 cents per coin today. To prevent a potential disruption to the mainstream financial system, government officials have called for the regulation of crypto markets.

Economy

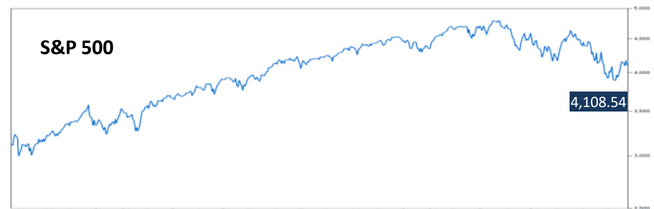
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 390,000 in April and the unemployment rate little changed at 3.6%. The broad U-6 measure of unemployment rate rose to 7.1% and the labor force participation rate inched up to 62.3%. Average hourly earnings increased 10 cents to $31.95 and the average workweek rose 0.1% to 34.6 hours. Examining the different employment sectors, leisure and hospitality added 84,000 jobs, manufacturing secured 18,000 jobs, but the retail sector shed 61,000 jobs. With respect to the April and March jobs reports, there were negative revisions totaling 22,000 jobs. Overall, nonfarm employment is still down 822,000 jobs or 0.5% from the pre-pandemic level back in February 2020. In other news this week, the ISM manufacturing survey increased from 55.4 in April to 56.1 in May surpassing expectations. The new orders index also rose from 53.5 to 55.1. Finally, the JOLTS report (job openings and labor turnover survey) showed 11.4 million job openings on 4/30/22 and a "quits" rate of 2.9%. The net change in employment over the past twelve months, ending on 4/30/22, is 6.4 million.

Fixed Income/Credit Market

According to Bloomberg's Municipal Bond Index, since May 19th, the municipal bond market has recouped roughly 3.3% of total returns of the 10.59% the sector had lost for investors between January 1st and May 18th. Interest rates across the Bloomberg AAA benchmark yield curve have rallied back anywhere from 39 basis points (bps) to 55 bps after the close of business on May 18th. Prior to that, the municipal bond market followed global interest rates higher and the AAA benchmark experienced a dramatic rise in yields anywhere from 110 bps to 214 bps (January 1st through May 18th). As summer approaches, a wave of cash from coupon payments and other redemptions will stoke more demand for the muni sector just as new issuance traditionally slows down and further boosts bonds prices. Across the entire U.S., visible 30-day supply is at $11.4B, meanwhile maturities and announced calls over the same 30-day period total $38.5B equating to net supply of -$27.1B.

Equities

Domestic equities were unable to string together two consecutive weeks of gains as all three major indexes declined over 0.9% this week. The notion of a Fed "pause" in rate hikes in September was mentioned as a tailwind for stocks last week, but that idea was met with skepticism this week. Part of the skepticism stemmed from Fed Governor Waller's comments supporting raising rates by 50 basis points for several meetings and he added that the policy rate should be above neutral by year-end to reduce demand. There has also been discussion about whether the equity strength last week was a true recovery or just a bear-market rally. That remains to be seen as we are still 7.83% above the intraday low set by the S&P 500 on May 20. Recent corporate updates have been mixed with companies such as Visa and Delta providing positive data on economic momentum; however, commentary from JPMorgan CEO Jamie Dimon and Tesla CEO Elon Musk pointed to a more cautious economic outlook. Growth stocks outperformed their value counterparts this week while small-cap stocks outperformed large-cap stocks. The only sector to post meaningful gains this week was energy, up 1.18%.



Our View

There were plenty of new items for investors to focus on last week, but the headline release of most interest to investors was the labor report for May. As expected, job growth cooled slightly as several areas of the economy began to slow. Several economic segments that are interest-rate sensitive, such as housing and autos, have already been impacted by the Fed tightening cycle. Gains in the labor market will be more difficult as the economy approaches full employment. The unemployment rate is approaching the pre-pandemic cycle low of 3.5% set in September of 2019. The U.S. labor market has been robust all year, but sustaining monthly job gains greater than 400,000, as economic growth inevitably decreases due to higher interest rates and the diminishing effect of fiscal stimulus, is not possible. The more troubling element of recent labor market releases has been wage growth. In the May report, wage growth remained strong rising 0.3%, with a year-over-year increase of 5.2%. With the demand for labor significantly higher than the supply, employees can demand higher wage rates. There are 11.4 million unfilled jobs nationally, according to the U.S. Bureau of Labor Statistics, which is nearly the largest number of unfilled jobs in our history. Conversely, the total number of unemployed people is 5.9 million, close to a 20-year low (February 2020 was the low at 5.7 million). Higher wages will keep pressure on the Federal Reserve to continue hiking rates. The Fed's goal is to lower inflation by extinguishing demand through higher rates at both the short end of the yield curve (raising the fed funds rate) and the longer end (quantitative tightening). Monetary policy is a blunt instrument that broadly impacts borrowers and causes unintended consequences. The 5.5 million gap between the number of unfilled jobs and unemployed people provides the Fed with some cushion for error. The Fed will also be willing to accept a higher unemployment rate to some degree to bring inflation back closer to its targeted average of 2%.

COMING UP NEXT WEEK		Consensus	Prior
06/07 Consumer Credit SA	(Apr)	$28.0B	$52.4B
06/10 CPI ex-Food & Energy SA M/M	(May)	0.41%	0.60%
06/10 CPI ex-Food & Energy NSA Y/Y	(May)	5.9%	6.2%
06/10 CPI SA M/M	(May)	0.70%	0.30%
06/10 CPI NSA Y/Y	(May)	8.3%	8.3%
06/10 Michigan Sentiment NSA (Preliminary)	(Jun)	58.2	58.4

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