Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

April 8, 2022

4/8/2022		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,721.12	-97.15	-0.28	1.86	-4.45	3.63
S&P 500	4,488.28	-57.58	-1.27	1.39	-5.83	9.47
NASDAQ	13,711.00	-550.50	-3.86	0.72	-12.36	-0.86
S&P MidCap 400	2,617.09	-93.06	-3.43	1.54	-7.91	-1.58

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.52	Euro/Dollar	1.09	-1.48
5-Year	2.75	Dollar/Yen	124.41	1.26
10-Year	2.71	GBP/Dollar	1.30	-0.76
30-Year	2.72	Dollar/Cad	1.26	0.77

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Global supply chain issues, rising energy costs, and the war in Ukraine are having a devastating effect on the global food supply and a concomitant impact on world hunger. Ukraine and Russia combined produce almost 30% of the world's trade in wheat, 32% of its barley, and 75% of its sunflower seeds and cooking oil. Ukraine's ports which ship 85% of its grains to the world are now being blockaded by the Russian Navy, and the Russian supply of grains has been hindered by shipping constraints. Energy prices are impacting the cost of planting, fertilizing, harvesting, and shipping food. The rising price of natural gas, a major input to fertilizer production, has caused many fertilizer plants to cut back production or halt it entirely. Since late last year and earlier this year, the prices of wheat, corn and brent crude oil are up 39%, 50%, and 41%, respectively. Some fertilizer prices have doubled or tripled over the past year. While much of this has to do with issues that pre-dated the war in Ukraine, the conflict has exacerbated and solidified these challenges. High food prices impact the poor disproportionately. Countries in the Middle East and Africa are particularly at risk because they are both very poor and highly dependent on Ukrainian and Russian wheat exports.

Economy

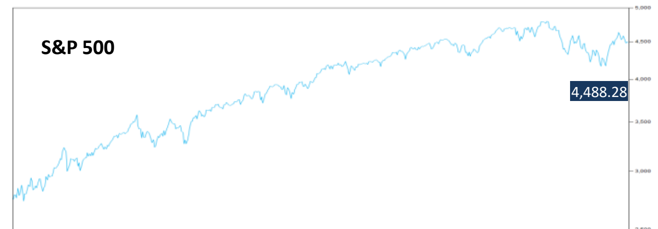
It was a light week for economic reports with the best news coming on Thursday, as weekly jobless claims fell to a near 54-year low. Initial jobless claims dropped to 166,000 during the week ending April 2nd. The weekly total was the lowest since November 1968 when the labor force was less than half of its current size. The four-week moving average is now at 170,000. Continuing claims increased slightly, up to 1,523,000 for the week ended March 26th. The number of workers quitting their jobs remains elevated with 4.3 million employees exiting their jobs in February. Overall, the labor-force participation rate has been rising, but still remains below pre-pandemic levels. In other news this week the ISM services report rose from 56.5 in February to 58.3 in March, after three straight months of declines. The new orders index also increased, rising from 56.1 to 60.1. Finally, on Tuesday, the U.S. trade deficit came in essentially unchanged at $89.2 billion. Exports have soared 19.9% year-over-year and imports have surged 23.1%. Compared to a year ago, the monthly trade deficit is $21.7 billion larger.

Fixed Income/Credit Market

It was a volatile week for U.S. Treasury yields evidenced by the 10-year Treasury interest rate moving 32.1 basis points (bps) higher to 2.7%. That move steepened the spread between the 2-year and 10-year tenors (2/10 spread) approximately 26.2 bps from -7.4 bps to +18.8 bps as of Friday afternoon. The narrative of larger rate hikes can be seen causing conflicting movements along investment grade and high yield corporate credit spread curves. On the week, the 5-year AA, A, and BBB-rated composites have declined between 5.2 and 5.5 bps. High yield spreads on 5-year BB and B-rated composites widened roughly 7.5 bps each. Week-over-week, option adjusted spreads (OAS) decreased 2 bps on the Bloomberg U.S. Aggregate Corporate Index (Investment Grade) while the OAS on the Bloomberg Barclays U.S. Corporate High Yield Index increased 14 bps. Furthermore, IG OAS declined to 113 bps over the last month after trading near one standard deviation above its 5-year average at 145 bps. The high yield OAS Index has been trading closer to its 5-year average after trading at roughly one standard deviation below its mean for most of the last 12 months.

Equities

U.S. equities opened the week on a higher note after a quiet Monday trading session as investors focused on Wednesday and the release of the March FOMC meeting minutes. On Tuesday, U.S. equities retreated and gave back some of Monday's gains, with major U.S. indices ending the trading session in the red. Concerns surrounding recession, price pressures, and tightening financial conditions were headwinds in Wednesday's trading, extending declines from earlier in the week. Balance sheet runoff was the key focus in the March FOMC meeting minutes. There was no specific catalyst behind Thursday's trading, which finished strong after a weak morning start. U.S. Equities ended the day higher, just off their best levels. U.S. equity indices ended the week mostly lower, with the Dow -0.28%, S&P 500 -1.27%, and the Nasdaq -3.86%. Friday's trading session was quiet, with March CPI expected next week and the start of the Q1 earnings season. Generally, value stocks outperformed growth names. Healthcare was the best performing sector at +3.44% and Information Technology the worst performer at -4.03%.



Our View

One of the most anticipated economic events this past week was the release of the FOMC minutes from its gathering in mid-March. With elevated inflation a clear concern for Fed officials, it was no surprise that the next stage of monetary policy tightening was heavily discussed. Moreover, the Fed's balance sheet has grown dramatically since the start of the pandemic from approximately $4.2 trillion to roughly $8.9 trillion today. Beyond raising the Fed fund rate moving forward, the Fed will also embark on a process designed to shrink its balance sheet called quantitative tightening (QT) in the near future. The Fed's balance sheet has grown to 37% of U.S. GDP and is substantially larger than the last time it started the QT process back in 2017. Projected monthly runoff caps are estimated to grow to $95 billion per month ($60 billion of U.S. Treasuries and $35 billion of agency MBS) over a 3-month ramp up period. Under the current projections, the Fed's balance sheet is projected to shrink to 23% of U.S. GDP by the fourth quarter of 2024. It is important to note that natural run off in the agency MBS portfolio may not reach the cap in certain months, particularly if rates rise and prepayments slow down, so the Fed will consider sales of agency MBS once the process is well underway. The exact start date of the QT process is not finalized at this point, but it could begin "as early as after the conclusion of its upcoming meeting in May." Since QT is designed to take money out of the financial system, it will likely cause borrowing rates to rise further out on the Treasury curve as the private sector has to step in and purchase securities that were once absorbed by the Fed. The Fed has extensive experience adjusting the Fed funds rate, but balance sheet reduction and its impacts on financial markets are less certain. Therefore, Fed officials are going to monitor the markets closely once the QT process starts and be willing to make the necessary adjustments in order to try and keep financial conditions stable and not truncate the economic expansion.

COMING UP NEXT WEEK		Consensus	Prior
04/12 CPI ex-Food & Energy SA M/M	(Mar)	0.50%	0.50%
04/12 CPI SA M/M	(Mar)	1.1%	0.80%
04/13 PPI SA M/M	(Mar)	1.2%	0.80%
04/14 Retail Sales ex-AutoFuel M/M	(Mar)	0.90%	-0.43%
04/14 Retail Sales SA M/M	(Mar)	0.60%	0.30%
04/14 Michigan Sentiment NSA (Preliminary)	(Apr)	58.9	59.4
04/15 Capacity Utilization NSA	(Mar)	77.8%	77.6%
04/15 Industrial Production SA M/M	(Mar)	0.40%	0.50%

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