Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

January 28, 2022

1/28/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,725.47	460.10	1.34	1.82	-4.44	13.47
S&P 500	4,431.85	33.91	0.77	1.37	-7.01	17.02
NASDAQ	13,770.57	1.65	0.01	0.70	-11.98	3.25
S&P MidCap 400	2,578.31	-16.18	-0.62	1.51	-9.28	7.96

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.17	Euro/Dollar	1.12	-1.60
5-Year	1.62	Dollar/Yen	115.18	1.33
10-Year	1.78	GBP/Dollar	1.34	-1.04
30-Year	2.08	Dollar/Cad	1.28	1.89

Source: Bloomberg/FactSet

What Caught Our Eye This Week

One of the hottest new activities in the virtual world is the creation, purchase, and sale of nonfungible tokens or NFTs. NFTs are digital certificates of authentication for unique, one-of-a-kind images, videos, audio files or other digital files that are stored on blockchains in the cloud. The Ethereum blockchain platform is the most frequently used digital repository for NFT ownership data. Examples of NFTs include many various types of digital images such as the very first tweet on Twitter, famous photographs, music, and sports video highlights. Although anyone can make a copy of a digital file, an NFT designates who officially owns the “original” file – although the creator of this file can retain copyrights, reproduction rights and be paid royalties whenever the NFT is resold. The blockchain in turn maintains a ledger listing the number assigned to this “original” file, and it keeps a record of the NFT’s owners and its purchases and sales over time. The collectible art market is making great use of this new technology. In 2021, approximately $41 billion in NFTs were sold compared to the roughly $50 billion traditional global fine art market. The storied Christie’s and Sotheby’s auction houses have been very active in this burgeoning trade. This past March, Christie’s sold one piece of digital art from the artist commonly known as Beeple for $69.3 million. NFTs can also be bought and sold online through many different NFT marketplaces such as OpenSea, Rarible and Foundation.

Economy

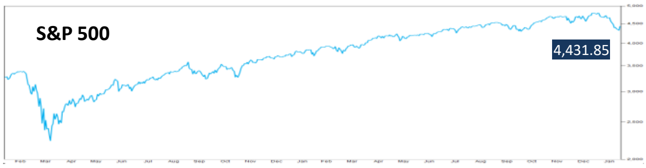
The most anticipated report this week was the first look at real fourth quarter GDP. Growth came in better than expected, posting a 6.9% advance. A significant buildup of inventories boosted the headline figure with real business inventories surging $174 billion. Excluding the inventory effects, output grew at a modest annual rate of 1.9% in the fourth quarter. In other news this week, new home sales increased by 11.9% to 811,000 units at an annual rate in December. The average price of new home sales soared 13.8% year-over-year. On Thursday new orders for durable goods disappointed with a 0.9% drop in December, but excluding the transportation sector, orders increased 0.4%. Core capital goods orders were unchanged and core capital goods shipments gained 1.3%. Personal income and consumption were reported on Friday; income increased 0.3% and spending declined 0.6%. Over the past twelve months, personal income is up 7.3% and personal spending has advanced 13.3%. The personal savings rate also rose, rising from 7.2% to 7.9%. Finally, on Thursday, initial jobless claims dropped 30,000 to 260,000 during the week ending January 22nd.

Fixed Income/Credit Market

Global financial markets are expecting the U.S. Federal Reserve to commence monetary tightening at its March meeting with a 25-basis point (bp) increase to the Fed funds rate. The futures market is currently pricing in 121 bps of rate hikes through December. The impact of an FOMC hiking campaign on financial conditions coming out of the pandemic remains unclear. The Bloomberg U.S. Financial Conditions Index tightened 0.171 to 0.313 this week following the Fed meeting. The index gauges the level of financial stress in the marketplace as it pertains to the availability and cost of credit across U.S. money markets, bonds, and equity markets. A negative reading indicates tight lending conditions whereas a positive value is indicative of more accommodative access to capital markets. The 5-year average is 0.399 with a peak of approximately 1.41 on July 2, 2021. The TED spread, which is the difference between 3-month Libor and 3-month T-Bill interest rates, narrowed slightly post-Fed meeting which indicates elevated credit risk has not permeated corporate credit markets at this stage.

Equities

The S&P 500 snapped a three-week losing streak after domestic equities staged a rally on Friday with all three major indices gaining over 1.6% on the day. The recent risk-off sentiment is largely the result of fading accommodative monetary policy, dissipating fiscal stimulus, and a regression of economic growth towards the long-term potential growth trend. The near-term low on the S&P 500 occurred midday on Monday, but stocks have rallied almost 5.0% off those lows. It was also encouraging to see strong earnings results from corporate behemoths like Apple, Microsoft and Visa. Although volatility can be unsettling, the market action over the past few weeks is more common than one might think. According to Crandall, Pierce & Company, the S&P 500 has experienced declines of 5-10% every 11.3 months on average since 1945. For the week, large cap stocks outperformed mid and small cap stocks, and growth outperformed value. The best performing sector was energy which gained 5.0%, while industrials lagged down 1.5%.



Our View

The Federal Reserve’s Open Market Committee concluded its January meeting this past week. The changes in the FOMC’s statement offered no material surprises, but Chairman Jerome Powell’s comments in the press conference following the meeting had a more hawkish tone. The current market consensus is for four rate hikes this year. Recently, bond yields and equity valuations have been adjusting to the reality of the normalization of monetary policy and the uncertainty of future inflation expectations. It is always disconcerting and can be somewhat jarring when equity price levels adjust to higher interest rates. Still, the real threat to the financial markets occurs when the central bank tightening cycle breaks the economy. As the tightening cycle continues, the higher cost of money causes liquidity to shrink, and stresses begin to manifest themselves. Initially, more speculative financial products are impacted, but a real signal for investors is when credit spreads dramatically expand. Past tightening cycles have taken years to play out. The Fed’s balance sheet is still growing, and it has not even started to raise rates yet. The volatility we have been experiencing has been in anticipation of rate hikes to dampen inflation. Global central banks are behind the inflation curve – the real Fed Funds Rate is -5% versus core CPI, while the real ECB deposit rate is -3% versus Eurozone core inflation. Although we have not even started this tightening cycle, investors are anxious because of high valuations and an uncertainty of how aggressive the Federal Reserve will need to bring inflation back to long-term targets. Equities generally can continue to produce positive returns early in the tightening cycle when the economy and earnings are still growing at accelerated rates. Because the economy has good momentum and labor conditions are favorable, we believe we are experiencing a corrective period of price adjustments in financial markets. It will take a significant lift in rates to impact the growth trajectory of the economy. Short-term market sentiment has not been good and has not been lifted by overall solid earnings reports. Market sentiment is also not being helped by heightened geopolitical risks. The Russia/Ukraine situation is difficult to handicap and it is another source of short-term market risk. We expect increased volatility near term, but long-term investors can take advantage of opportunities created in high-quality companies at more attractive values.

COMING UP NEXT WEEK		Consensus	Prior
01/31 Chicago PMI SA	(Jan)	60.0	64.3
02/01 ISM Manufacturing SA	(Jan)	57.5	58.7
02/03 Durable Orders SA M/M (Final)	(Dec)	-0.90%	-0.90%
02/03 Factory Orders SA M/M	(Dec)	0.10%	1.6%
02/03 ISM Non Manufacturing SA	(Jan)	59.3	62.0
02/04 Nonfarm Payrolls SA	(Jan)	150.0K	199.0K

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