Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

April 15, 2022

4/15/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,451.23	-269.89	-0.78	1.88	-5.19	2.14
S&P 500	4,392.59	-95.69	-2.13	1.41	-7.84	6.50
NASDAQ	13,351.08	-359.92	-2.63	0.74	-14.66	-3.66
S&P MidCap 400	2,628.61	11.52	0.44	1.54	-7.51	-1.94

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.45	Euro/Dollar	1.08	-0.89
5-Year	2.79	Dollar/Yen	125.90	1.21
10-Year	2.83	GBP/Dollar	1.30	0.28
30-Year	2.92	Dollar/Cad	1.26	0.14

Source: Bloomberg/FactSet

What Caught Our Eye This Week

After record-high levels of global initial public offering (IPO) activity in 2021, volatile market conditions have resulted in a significant slowdown during the first quarter of 2022. The year started strongly, continuing the momentum of Q4 2021, with January producing the strongest opening month by proceeds in 21 years. However, by the second half of the quarter, worldwide stock market declines shifted the trajectory dramatically in the opposite direction, resulting in a significant decline in overall IPO activity. For Q1 2022, the global IPO market saw 321 deals which raised US $54.4 billion in proceeds, a decrease of 37% and 51% year over year. According to Dealogic, technology and materials led with 58 deals each in Q1 2022, followed by industrials (57), health & life science (49) and consumer (41). Interestingly, the energy sector, which only had 15 IPO deals in the first quarter, led in proceeds by sector with $12.2 billion raised followed by technology with $9.88 billion. The sudden reversal can be attributed to the rise in stock market volatility caused by geopolitical tensions, growing concerns about rising commodity and energy prices, the impact of inflation and interest rates hikes. In addition, the price correction in over-valued companies that debuted last year has caused many companies to not only rethink their timing but to rethink their valuation.

Economy

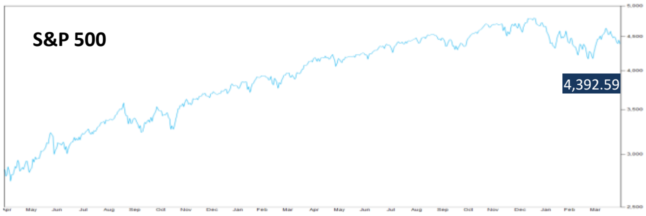
The economic headliner once again was the consumer price index (CPI), which was released on Tuesday. The CPI in March rose 1.2%, which was in line with analyst's expectations. Over the past twelve months, the CPI has soared 8.5%. This is the fastest pace in four decades and the CPI yearly advance has now exceeded 6% for six straight months. The "core" CPI also increased 0.3% and is now up 6.5% year-over-year. New vehicle prices rose 0.2%, energy prices surged 11% and food prices gained 1.0%. Gas prices soared 18.3%, which is the largest monthly increase going back to 2009. In other news this week, retail sales advanced 0.5% in March, which was very close to consensus expectations. Excluding gasoline stations, total retail sales declined 0.3%. The "control" category, which excludes food service, autos, gas and building materials, dropped 0.1%. Food services and drinking places jumped 1.0% after increasing 3.0% during the month of February. Finally, on Wednesday, the producer price index posted its largest gain on record, rising 1.4% in March. Energy and food prices led the way increasing 5.7% and 2.4%, respectively.

Fixed Income/Credit Market

A measure of relative value known as the municipal to U.S. Treasury ratio (muni/UST ratio) has rebounded sharply year-to-date. Using Bloomberg's benchmark 10-year AAA index, the muni/UST ratio has increased 27.4 percentage points from a January 2022 low of 64.2% to 91.6%. The change represents a 42.7% rise. The 5-year average is 88.3% which hit a peak of 365% at the beginning of the pandemic, subsequently dropping to as low as 53.9% in February 2021. The move higher in yields has been a boon for municipal bond investors, particularly New Jersey based buyers. The 10-year AAA NJ index is now trading at approximately 3.19% which is a 71.5 basis point (bps) spread versus the 10-year AAA benchmark. Over a one-year horizon, New Jersey's 10-year yield spread has averaged 34.4 bps, therefore the current level of 71.5 bps is 3.2 standard deviations above the one-year mean. From a taxable equivalent yield (TEY) perspective, 3.19% equates to 5.92% for NJ investors in the highest tax bracket.

Equities

Domestic equities declined for a second consecutive week as investors digested new inflation data and corporate earnings results. On Tuesday, the consumer price index report showed inflation levels not seen since 1981; however, analysts generally believe it is likely the peak for consumer inflation. On Wednesday, the corporate earnings season kicked off with a mixed report from JPMorgan. Jamie Dimon, Chairman and CEO, commented, "We remain optimistic on the economy, at least for the short term – consumer and business balance sheets as well as consumer spending remain at healthy levels – but see significant geopolitical and economic challenges ahead due to high inflation, supply chain issues and the war in Ukraine." The path of least resistance for stocks has trended to the downside recently amid those concerns. According to FactSet, for Q1 2022, the blended revenue and earnings growth rates for the S&P 500 are expected to be 10.8% and 5.1%, respectively. The lower earnings growth rate relative to recent quarters can be attributed to a difficult comparison to unusually high earnings growth in Q1 2021 and continuing macroeconomic headwinds.



Our View

Two more inflation metrics were released last week which showed that prices continued to surge in March. The consumer price index year-on-year increased by 8.5%, with the energy component spiking 11.0%. The Russian invasion of Ukraine definitely impacted gasoline and energy prices in March, but core inflation still rose at an alarming 6.5% pace (the fastest rate since 1982). Concerns over inflation have pressured interest rates and equity markets in 2022 and will likely continue to be the dominant topic for financial markets for the remainder of the year. The ramifications of rapidly rising price levels are multifaceted, but the most problematic element is the decline in real wages. Although wages continue to grow at the fastest rate in two decades, real wages are falling. Overall, employees are losing relative purchasing power. Wages, a measure for the cost of labor, tend to be "stickier" than the cost of other products and services. During rapid inflation, real wages spiral down as higher prices erode the buying power of paychecks. The law of supply and demand suggests that lower real wages will increase the demand for labor as labor becomes relatively less expensive. Higher demand for labor will further tighten the labor market and will drive the unemployment rate lower. Many areas of the economy are already experiencing labor shortages and we would expect shortages to worsen in the short term. The labor participation rate is likely to increase as well. Workers who have voluntarily left the labor force for retirement or other reasons, such as Covid-19, will likely reassess their decision to step out of the labor force due to the rising cost of living. Some of those workers may return, but not in sufficient numbers to completely ameliorate wage pressure. Wage rates are rising more slowly than overall prices, as is typical during the initial period of rapid inflation, which is generally advantageous for business margins in aggregate. First-quarter earnings season has just begun, and it is too early to assess the overall effect inflation is having on corporate earnings. Some companies have more pricing power and will better navigate the current inflationary environment, and some will experience margin pressure. Investors likely will examine the first-quarter earnings reports more critically than in the recent past.

COMING UP NEXT WEEK		Consensus	Prior
04/19 Housing Starts SAAR	(Mar)	1,758K	1,769K
04/20 Existing Home Sales SAAR	(Mar)	5,700K	6,020K
04/21 Leading Indicators SA M/M	(Mar)	0.30%	0.30%
04/22 Markit PMI Manufacturing SA (Preliminary)	(Apr)	58.5	58.8
04/22 Markit PMI Services SA (Preliminary)	(Apr)	58.4	58.0

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