Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

February 4, 2022

2/4/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	35,089.74	364.27	1.05	1.80	-3.44	12.99
S&P 500	4,500.53	68.68	1.55	1.35	-5.57	16.24
NASDAQ	14,098.01	327.43	2.38	0.68	-9.89	2.32
S&P MidCap 400	2,623.18	44.87	1.74	1.48	-7.70	6.97

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.31	Euro/Dollar	1.14	2.49
5-Year	1.77	Dollar/Yen	115.26	0.07
10-Year	1.92	GBP/Dollar	1.35	0.88
30-Year	2.22	Dollar/Cad	1.28	0.02

Source: Bloomberg/FactSet

What Caught Our Eye This Week

In anticipation of multiple interest rate increases by the Federal Reserve (likely beginning in March), investors expect corporate bond issuance to decline in 2022 after a record-setting year in 2020 ($1.86 trillion) and a similarly strong 2021 ($1.46 trillion) added substantial cash to corporate balance sheets. The slower pace of bond issuance, sometimes thought to be a source of funds for companies' share repurchases, has had relatively little impact on stock buybacks. During 2021, corporations completed share repurchase programs equaling $850 billion in total buyback volume, exceeding the previous high watermark of $806 billion set in 2018. This week, Exxon Mobil, Union Pacific, and Bristol Meyers were some of the companies that announced large, new share repurchase initiatives. Share repurchases are an interesting choice for the deployment of excess cash compared to the competing alternatives of re-investing in its business or increasing dividends (in some cases companies are doing both). This capital allocation decision reflects management and board confidence for future earnings growth.

Economy

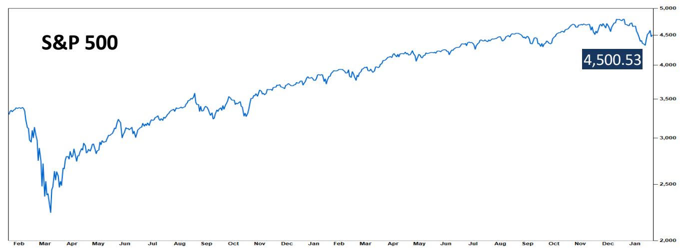
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 467,000 in January and the unemployment rate little changed at 4.0%. The broad U-6 measure of unemployment fell to 7.1% and the labor force participation rate was unchanged at 62.2%. Average hourly earnings increased 23 cents to $31.63 and the average workweek declined 0.2 hour to 34.5 hours. Examining the different employment sectors, professional and business services added 86,000 jobs, retail gained 61,000 jobs, and leisure and hospitality secured 151,000 jobs. The payroll diffusion index, which measures the number of industries increasing employment, fell from 72.7% to 60.7%. Overall, nonfarm employment has increased 19.1 million since April 2020, but down 2.9 million or 1.9% from its pre-pandemic level in February 2020. In other news, this week, the ISM manufacturing survey dropped from 58.8 in December to 57.6 in January. Finally, the JOLTS report (job openings and labor turnover survey) showed 10.925 million job openings on 12/31/2021 and a "quits" rate at 2.9%.

Fixed Income/Credit Market

Through Thursday this week, U.S. Treasury yields were grinding higher with a small bias towards a steepening yield curve. The benchmark 2-year and 10-year Treasury Notes closed Thursday at approximately 1.2% (+3.3 bps) and 1.83% (+6 bps), respectively. However, on Friday morning the change in nonfarm payrolls (NFP) at 467k came in almost 3.75 times above expectations of 125k. Revisions from January also increased from 199k to 510k. In the wake of the NFP print, interest rates along the U.S. Treasury curve surged. The 2-year Note rose 11.5 bps while the 10-year increased 7.8 bps on Friday alone. Each day that we move closer to a potential Fed hike in March, the yield curve appears to be taking on the shape many market participants prognosticated; higher but flatter. The spread between 2-year and 10-year interest rates is currently 59.8 bps, roughly 25.5 bps below its three-month average and nearly 52 bps below its three-month peak.

Equities

Major U.S. indices reported another weekly gain for the second consecutive week following a volatile beginning to the year. The S&P 500, Dow and NASDAQ finished with gains of 1.55%, 1.05% and 2.38%, respectively. With more than half of the S&P 500 having reported their earnings for Q4 2021, 77% have exceeded consensus estimates, albeit less than the four-quarter average of 84%. Big tech earnings have generally supported equity markets throughout the recent volatility, but some notable companies had disappointing reports. Both Meta and Netflix issued poor guidance for 2022, resulting in steep declines in their share prices. Their performance this week weighed down the communication services sector causing it to be the worst performer at -0.25%, while energy was the top performing sector at +4.94%. Growth outperformed value this week with an increase of 1.83% vs 1.58%, while mid-cap stocks outperformed large and small-cap.



Our View

Inflation in the U.S. is clearly an issue right now and the recent tightening in the labor market is certainly not alleviating inflation concerns as higher wage growth will eventually make its way into consumer prices. In terms of labor supply, there has been a structural decline in labor force participation due to an aging domestic population. Moreover, the percentage of the population aged 55 and over back in 1997 was 27%, whereas today that figure is meaningfully higher at 37%. Many U.S. workers have decided to retire early due to elevated asset prices thanks to extremely accommodative fiscal and monetary policies, fears of contracting COVID-19 and reluctance to return back to crowded work environments. There is no question that the migration of the nation's age profile has been a significant factor weighing down labor force participation recently. Even younger workers have been hesitant to reenter the labor force because of childcare complications. Due to staffing challenges, daycare centers are not fully functional and this creates an issue for the roughly 13 million U.S. households with children under the age of six. Accumulated savings during the pandemic has also given many households a financial cushion that has allowed for a delayed reentry into the labor force. During the previous economic expansion, the relationship between wages and employment (as measured by the Phillips Curve) had broken down from its historic norm. This was largely due to globalization and the decline of union membership, which created less worker bargaining power. However, the Phillips Curve is not completely irrelevant; it just needs to be viewed through a new angle with the structural changes that have recently reshaped the labor market. Average hourly earnings were up 5.7% annualized in January and with labor demand still very robust (as of December there were nearly 11 million job openings) and supply somewhat constrained, it would seem unlikely that a slowdown in wage growth materializes any time soon. Predicting the future path of inflation in the current environment is very challenging. Market-based inflation expectations over the next two years according to the TIPS market are projecting inflation to remain above 3%, which has come down since peaking in November of 2021, but inflation still remains elevated from the Fed's point of view.

COMING UP NEXT WEEK		Consensus	Prior
02/10 CPI ex-Food & Energy SA M/M	(Jan)	0.50%	0.60%
02/10 CPI ex-Food & Energy NSA Y/Y	(Jan)	5.9%	5.5%
02/10 CPI NSA Y/Y	(Jan)	7.3%	7.0%
02/10 Treasury Budget NSA	(Jan)	$25.0B	-$21.3B
02/11 Michigan Sentiment NSA (Preliminary)	(Feb)	67.5	67.2

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