Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

May 13, 2022

5/13/2022		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	32,196.66	-702.71	-2.14	2.01	-11.40	-5.36
S&P 500	4,023.89	-99.45	-2.41	1.56	-15.57	-2.15
NASDAQ	11,805.00	-339.66	-2.80	0.84	-24.54	-10.06
S&P MidCap 400	2,430.83	-50.12	-2.02	1.66	-14.47	-9.18

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.58	Euro/Dollar	1.04	-1.78
5-Year	2.87	Dollar/Yen	129.38	-0.79
10-Year	2.92	GBP/Dollar	1.22	-1.07
30-Year	3.09	Dollar/Cad	1.29	0.54

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Despite higher costs of living brought on by persistently high inflation, the war in Ukraine, soaring gas prices, and recent turmoil in the global financial markets, more Americans are likely to travel this year than at any time since the start of the coronavirus pandemic. Even though uncertainties remain surrounding the travel landscape, the World Travel & Tourism Council and Oxford Economics project domestic travel spending will reach more than $1.1 trillion, surpassing pre-pandemic levels by about 11%. In addition, a Skyscanner survey indicates that travelers are not only looking to spend more on travel as a whole but are also looking to make longer trips and upgrade the level of their accommodations. Loosened travel regulations this year suggest seasonality is back, with growing demand for longer holidays during key summer and winter periods, providing a degree of certainty going forward. For those eager to tour the country and the world, planning ahead will be key as seasonal deals will be challenging to find amidst the increased demand.

Economy

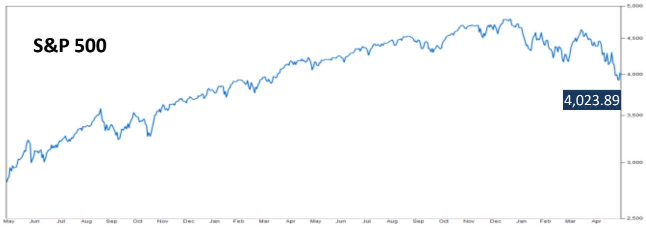
The economic headliner this week once again was the consumer price index (CPI), which was released on Wednesday. The CPI in April rose 0.3%, a tick above the consensus forecast. Over the past twelve months, the CPI has increased 8.3%. The “core” CPI also increased, rising 0.569% and is now up 6.2% year-over-year. Used vehicle prices declined 0.4%, a third straight monthly drop, food prices gained 0.9% and airfares surged 18.6%. It appears inflation has spread to the services side of the economy with these prices advancing 0.7% in April. Services prices have not posted a monthly increase this large since 1990. On Thursday, the producer price index showed an increase of 0.5% in April, which was in line with the consensus forecast. Year-over-year these prices are up 11%. Food prices rose 1.5% and energy prices soared 1.7%. Finally, on Thursday, initial jobless claims increased from 202,000 to 203,000 during the week ending May 7^{th}. The four-week moving average is now at 193,000.

Fixed Income/Credit Market

Rates were volatile this week as U.S. Treasury yields pulled back, given recent economic data and an indication from the Fed that a 75 basis point (bp) is unlikely to happen. A flight to quality took place throughout the week, dropping rates substantially lower from a week ago. The 10-year U.S. Treasury yield declined about 20 bps to 2.92% However, the Fed is still expected to continue their aggressive tightening policy which is further supported by April’s CPI data remaining elevated and the Fed’s lack of deterrence due to the selloff in equities. Despite the recent rally in U.S. Treasuries, the market is still pricing in 5 additional rate hikes before the end of the year, with two of those expected to be 50 bps each. Heading into Friday, 10-year municipal debt is yielding 100.4% of Treasuries, up from 90.5% a week ago, making municipal debt the cheapest it has been relative to Treasuries since 2020. Municipal yields on the 10-year benchmark have risen by 8 bps since last week’s close.

Equities

Domestic equities continued their downward trajectory with the S&P 500 posting its sixth consecutive week of declines for the first time since 2011. The sharpest selloff occurred on Monday resulting in the S&P 500 closing below 4,000 – a level not seen since March of 2021. The negative sentiment continues to center around global central bank monetary policy shifts, persistently high inflation levels, supply chain and growth concerns relating to China lockdowns, and geopolitical tensions stemming from the conflict in Ukraine. Given the intense selling pressure experienced over the past month, equity valuations have become more reasonable. According to FactSet, as of Friday, the forward 12-month P/E ratio for the S&P 500 now stands at roughly 17.8x. This P/E ratio is below the 5-year average of 18.6x. With just over 90% of S&P 500 companies having now reported Q1 earnings, equity investors’ focus will likely shift to the April retail sales report next week which should provide insights into the state of the U.S. consumer.



Our View

The equity market's selloff has been very orderly until just recently. After a solid two-week rally at the end of March, the S&P 500 retested March's low of 4173 in early May. The retest failed as the market has broken through those March lows and has now fallen over 18% from the beginning of the year. The 2022 drawdown intensified after the Federal Reserve's May meeting. There has also been a noticeable pick-up in volatility. The financial markets have been remarkably volatile, especially equities. The S&P 500 has had an intraday move of over 2% on 38% of this year's trading days, at levels we haven't experienced since 2008 and 2009. The risk-off sentiment and drawdown in price levels have removed some speculative excesses in financial markets. For example, many crypto-currencies have been under intense pressure, cryptocurrencies such as bitcoin and dogecoin are down over 50% this year. Valuations for most risk assets have adjusted back into their historic ranges. The valuation adjustment in the equity market that higher Interest rates have caused has been rapid. The forward price-to-earnings multiple for large-cap domestic equities has gone from 21x at the beginning of the year to 17.8x. The forward multiple is now squarely in the middle of the long-term range. We could see additional multiple compression if interest rates move significantly higher or additional pressure on stock prices if earnings expectations erode. Although this selloff has been rapid and painful, it is part of a normal corrective phase for financial markets. Since the core issue driving market conditions is inflation, the solution is to depress aggregate demand through higher interest rates. It is a process that has occurred many times in prior cycles and is well understood. Unfortunately, the process takes time. Monetary policy adjusts, and higher rates generally proceed with the full implementation of tighter policy, which slows the economy and brings inflation under control. It can be a lengthy period of uncertainty and heightened volatility, but fortunately, inflation-driven cycles generally do not produce lasting structural damage.

COMING UP NEXT WEEK		Consensus	Prior
05/17 Capacity Utilization NSA	(Apr)	78.5%	78.3%
05/17 Industrial Production SA M/M	(Apr)	0.40%	0.90%
05/17 Retail Sales ex-Auto SA M/M	(Apr)	0.40%	1.4%
05/17 Retail Sales SA M/M	(Apr)	0.80%	0.75%
05/18 Housing Starts SAAR	(Apr)	1,760K	1,793K
05/19 Existing Home Sales SAAR	(Apr)	5,600K	5,770K
05/19 Leading Indicators SA M/M	(Apr)	-0.10%	0.30%

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