PEAPACK PRIVATE

*Wealth Management*

# The Weekly

## Economic & Market Recap

February 25, 2022

| 2/25/2022 | | Wk Net | Wk % | | YTD % | 12 Mos % |
|---|---|---|---|---|---|---|
| **STOCKS** | Close | Change | Change | Div Yield | Change | Change |
| DJIA | 34,058.75 | -20.43 | -0.06 | 1.87 | -6.27 | 8.46 |
| S&P 500 | 4,384.65 | 35.78 | 0.82 | 1.40 | -8.00 | 14.50 |
| NASDAQ | 13,694.62 | 146.56 | 1.08 | 0.72 | -12.47 | 4.38 |
| S&P MidCap 400 | 2,661.60 | 29.11 | 1.11 | 1.47 | -6.35 | 6.52 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 1.57 | Euro/Dollar | 1.12 | -0.85 |
| 5-Year | 1.87 | Dollar/Yen | 115.58 | 0.38 |
| 10-Year | 1.97 | GBP/Dollar | 1.34 | -1.22 |
| 30-Year | 2.28 | Dollar/Cad | 1.27 | 0.02 |

Source: Bloomberg/FactSet

### What Caught Our Eye This Week

Industry tracker PetKeen estimates the global pet market is worth close to $180 billion today and projects it will reach $240 billion by 2026. The 2019-2020 National Pet Owners Survey stated that 67% of American families own pets, which is 85 million families. Led by millennials and Gen Z, one in five households brought home a new pet during the pandemic. As many people head back to the office, new challenges for owners will present new opportunities for companies in the pet care industry. Spending on pet care has grown to over $100 billion in the U.S. and is poised to go even higher. The behaviors of millennials and Gen Z are likely to shape the pet care industry for years, especially as they form new households and continue to dote on their pets. The pet industry, with an estimated 1.3 million workers, has established itself as an essential part of millions of people's lives in the U.S. Recent trends show potential growth in various branches: food and treats (natural and organic), health and wellness, services (grooming and pet sitting) and pet accessories.

### Economy

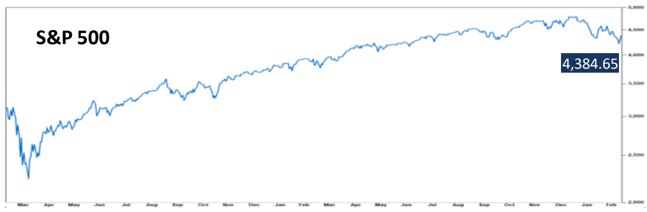
It was an active week for economic data starting on Tuesday with the Conference Board's consumer confidence index. This metric fell from 111.1 in January to 110.5 in February, and the labor market differential dropped from 43 to 42. On Thursday, the second look at Q4 real GDP growth showed a slight revision from 6.9% to 7.0% matching consensus figures. Inventories continue to dominate the data, contributing 4.9% points to the headline number. Real domestic final sales growth was revised upward from 1.9% to 2.0%. Also, on Thursday, new home sales posted a 4.5% decline to 801,000 units at an annual rate in January. These figures were slightly less than expected, but the median sales price advanced 13.4% year-over-year. Orders for durable goods were released on Friday and beat expectations, gaining 1.6% in January. More importantly, core capital goods orders advanced 0.9% and core capital goods shipments surged 2.1%. Finally, on Friday, personal income for January was little changed and personal spending increased 2.1%, which was ahead of consensus.

### Fixed Income/Credit Market

Despite this week's rally back in AAA municipal bond yields anywhere from 1 to 5 basis points (bps), municipal bond yields are still attractive relative to where they were during the early stages of the pandemic after the Federal Reserve stepped in. For New Jersey muni bond investors, the incremental yield pickup since the beginning of 2022 is extraordinarily impactful. Using the 10-year AAA NJ benchmark as a proxy, currently trading at 1.98%, taxable equivalent yields (TEY) for investors in the highest tax bracket have increased their yield profile 120 bps from 2.47% to 3.67% since the beginning of 2022. Additionally, from a relative value perspective, New Jersey's 10-year AAA muni to U.S. Treasury (UST) ratio is roughly 100% whereas the broader market is just 82.7%. This past week an S&P AAA rated New Jersey 10-year municipal bond priced at 2.2% which equates to a muni to UST ratio of 111%. New Jersey residents in the highest tax bracket who participated in the deal obtained a TEY of 4.08%.

### Equities

Equity market volatility remains elevated, but the S&P 500 managed to post gains during this holiday-shortened week. Stocks sold off sharply on Tuesday and Wednesday pushing the S&P 500 into correction territory, down more than 10% from its January 3rd all-time closing high. On Thursday, equities opened the trading day down more than 2.35% resulting from the Russian invasion of Ukraine; however, stocks made a remarkable turnaround throughout the day and managed to end Thursday up 1.50%. The positive momentum continued into Friday, and the S&P 500 has now rallied 6.6% off the lows set on Thursday morning. It is not very clear what sparked the bounce in equities, but some have cited that the Fed may be less aggressive in their hawkish policy shift given the developments overseas. This week, small and mid-cap stocks outperformed large-cap while growth outperformed value. The only sector to post a meaningful decline was consumer discretionary (-2.16%), and healthcare outperformed gaining 2.71%.




### Our View

Volatility became unhinged this week as Russia invaded Ukraine on Thursday. The VIX Index, which historically has resided close to 20, spiked to nearly 38 on Thursday morning as a diplomatic solution to the conflict surrounding Ukraine did not come to fruition. Predictions about the outcomes of geopolitical risks are particularly challenging, but past experience has shown that the initial equity selloffs generally tend to be short-lived. For example, when Russia annexed the Ukrainian peninsula of Crimea in 2014, the S&P 500 selloff lasted 6 days and resulted in a 2% drawdown, which took 13 days to recover. However, the impact of the geopolitical risks present today are certainly unique and will be felt differently around the globe. Moreover, the financial markets in Russia are already under a tremendous amount of pressure as the weight of sanctions, high inflation and tightening monetary policy will place downward pressure on financial conditions and increase the risk of a recession in the country. Europe will be impacted by elevated energy costs as roughly 40% of Europe's gas supply comes from Russia, which will work its way into headline inflation. We believe the ECB will remain dovish over the course of 2022 to further support its current economic expansion. For the U.S., energy prices will also be elevated as the U.S. exports more natural gas to Europe and the increased demand places upward pressure on domestic prices. With inflation already running hot and economic growth still favorable, the Fed will not refrain from tightening monetary policy this year with a very high probability of at least a 25-basis point rate hike at its March meeting. The Fed will pay close attention to the labor market and inflation as the year progresses and adjust policy accordingly, but the market is still projecting approximately six 25-basis point rate hikes in 2022. The main goal of the U.S. and its allies at this point is to work in a coordinated manner to help alleviate the human suffering that is occurring due to the Russian invasion. Sanctions on Russia have been in place since 2014 and are currently being amplified and expanded. Although violence has already broken out, world leaders are working diligently to muffle the violence and tensions in Ukraine.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 02/28 Chicago PMI SA | (Feb) | 63.0 | 65.2 |
| 03/01 Markit PMI Manufacturing SA (Final) | (Feb) | 57.6 | 57.5 |
| 03/01 ISM Manufacturing SA | (Feb) | 57.8 | 57.6 |
| 03/03 Factory Orders SA M/M | (Jan) | 0.50% | -0.40% |
| 03/03 ISM Non-Manufacturing SA | (Feb) | 61.0 | 59.9 |
| 03/04 Nonfarm Payrolls SA | (Feb) | 385.5K | 467.0K |
| 03/04 Unemployment Rate | (Feb) | 3.9% | 4.0% |

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