Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

June 10, 2022

6/10/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	31,392.79	-1506.91	-4.58	2.10	-13.61	-8.92
S&P 500	3,900.86	-207.68	-5.05	1.63	-18.16	-7.98
NASDAQ	11,340.02	-672.71	-5.60	0.89	-27.52	-19.12
S&P MidCap 400	2,407.67	-113.46	-4.50	1.70	-15.28	-12.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	3.06	Euro/Dollar	1.05	-1.79
5-Year	3.26	Dollar/Yen	134.24	2.69
10-Year	3.16	GBP/Dollar	1.23	-1.44
30-Year	3.19	Dollar/Cad	1.28	1.66

Source: Bloomberg/FactSet

What Caught Our Eye This Week

As the pandemic ages and enters its third summer, consumer preferences and needs are shifting at a faster pace than previously expected. Though the coronavirus still infects tens of thousands of people daily, many Americans have returned to their pre-Covid lifestyles, favoring experiences and services in their overall consumption basket instead of things/goods (electronics, housewares, etc.). This week, several big-box retailers indicated that they have excess inventory and, prior to the critical fall and holiday shopping seasons, will almost certainly have to reduce prices, cancel orders, and cut profit outlooks in order to clear out the excess merchandise from which consumers have steered away. Companies such as Target say they are working with suppliers to cover costs for their vendors impacted by the canceled orders. Retailers are hopeful that taking aggressive action today will result only in a short-term hit to margins but not disrupt previously forecast full-year revenue growth. These developments come as consumers are already feeling pinched by soaring food and fuel costs, leaving less room in their budgets for discretionary spending. A decline in consumer spending due to inflation will have a negative effect on economic growth.

Economy

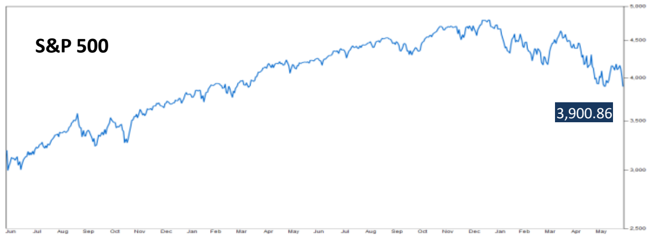
The economic headliner this week was the Consumer Price Index (CPI) report, which was released on Friday. Consumer prices increased 1.0% in May, well above consensus expectations for a rise of 0.7%. This pushed the year-over-year (YoY) increase to a new post-COVID peak of 8.6%, the highest in more than 40 years. Energy prices increased 3.9% in May, while food prices increased 1.2%. The "core" CPI, which excludes food and energy, rose 0.6% during the month, which was also above expectations. In other news, consumer credit increased by $38.07 billion in April beating expectations for an increase of $35 billion. Revolving credit, which includes credit card debt, rose by $17.77 billion while non-revolving credit, which includes auto and student loans, increased by $20.3 billion. On Thursday, initial jobless claims for the week ended June 4th came in at 229,000, the highest level since mid-January and higher than expectations of 210,000. Still, claims have been below the 200,000-250,000 range which is viewed as consistent with healthy labor market conditions since late November. Finally, the Michigan consumer sentiment index fell to a record low of 50.2 in June, well below market forecasts of 58.1.

Fixed Income/Credit Market

Rates moved in a bear flattening trend this week as investors continue to digest the path the Fed may choose in a volatile environment with several important variables at play. With slowing economic growth and high inflation, the Fed has a tough challenge ahead as worries of stagflation are increasing. The highly anticipated inflation data for May was released on Friday with CPI year-over-year coming in at 8.6%, exceeding consensus expectations by 0.3%, removing any hope of a peak in inflation. Short-term U.S. Treasury rates surged to their highest levels since June of 2018 as the 2-year yields closed at 3.07%. Moreover, the curve is inverted as the 5/30 spread sits at -6 basis points (bps), indicating that investors are skeptical of the Fed's ability to engineer a soft landing. Fed fund futures are now pricing in 3 additional hikes of 50 bps each over the next few months through September's FOMC meeting. Next week's FOMC meeting minutes should provide more clarity on the Fed's stance following new economic data.

Equities

U.S. equities had a positive start to the week but closed lower on Wednesday with no major directional drivers as investors remained fixated on the Friday release of the May Consumer Price Index (CPI) report and the Federal Open Market Committee (FOMC) meeting next week. The decline continued into Thursday's trading, with global monetary policy shifts at the forefront while awaiting the CPI print. Friday's CPI report showed unexpected price increases, +8.6% year-over-year (YoY), jumping the most since 1981. As a result, U.S. equities finished with a notable weekly selloff as inflation concerns rose. The Dow, S&P 500, and Nasdaq ended the week down -4.58%, -5.05%, and -5.60%, respectively. The S&P 500 index recorded its worst performance since January. All the sectors were lower, with energy the least changed, -0.92%. Value stocks outperformed growth stocks slightly.



Our View

U.S. consumers are the main driver of the U.S. economy as they make up close to 70% of gross domestic product. As of the fourth quarter of 2021, the U.S. consumer in aggregate was in great shape with total assets of over $160 trillion and total liabilities of only $18 trillion. Moreover, the household debt service ratio (debt payments as a percentage of disposable personal income) resided at a historically low level of 9.3% as of the first quarter of 2022, which was well below the 13.2% it reached prior to the 2008 financial crisis. However, with consumer finances in such pristine shape, why has investor sentiment according to the University of Michigan fallen to such a low level? The main answer to the previous question has to do with the elevated and broad-based inflation growth that the consumer has been facing. Furthermore, even though the labor market is tight and wages are rising quite significantly, real average hourly earnings are down 3.0% on an annual basis in May. Inflation tends to impact households of modest means more significantly as they typically live on strict budgets and are forced to make hard economic choices when prices are rising significantly. It is interesting to note that the early signs of an elevated inflationary period tends to spur economic growth as consumers look to purchase items sooner rather than paying higher prices later. Recent high frequency data shows that consumer debit and credit card transactions are 35% above where they were back prior to the pandemic in 2019. During the pandemic, consumers amassed roughly $2.0 trillion in savings and they are rapidly dipping into those savings now. The Fed has clearly communicated that its number one priority at this point is to fight inflation. Moreover, the most recent consumer price index report indicates that as of May, signs that inflation is decelerating meaningfully have not yet been met. Therefore, a 50-basis point rate hike in the Fed funds rate over each of the next two to three FOMC meetings is highly probable at this juncture. As the Fed proceeds to tighten monetary policy and financial conditions, we expect volatility to remain elevated, which will continue to be a headwind for risk assets.

COMING UP NEXT WEEK		Consensus	Prior
06/14 PPI ex-Food & Energy SA M/M	(May)	0.50%	0.40%
06/14 PPI SA M/M	(May)	0.70%	0.50%
06/15 Retail Sales ex-Auto SA M/M	(May)	0.75%	0.60%
06/15 Retail Sales SA M/M	(May)	0.20%	0.90%
06/16 Housing Starts SAAR	(May)	1,720K	1,724K
06/17 Capacity Utilization NSA	(May)	79.3%	79.0%
06/17 Industrial Production SA M/M	(May)	0.50%	1.1%
06/17 Leading Indicators SA M/M	(May)	-0.30%	-.30%

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