



3/25/2022		Wk	Wk		YTD	12 Mos
	Close	Net	%	Div	%	%
		Change	Change	Yield	Change	Change
STOCKS						
DJIA	34,861.24	106.31	0.31	1.85	-4.06	6.87
S&P 500	4,543.06	79.94	1.79	1.37	-4.68	16.21
NASDAQ	14,169.30	275.46	1.98	0.70	-9.43	9.18
S&P MidCap 400	2,712.43	6.62	0.24	1.49	-4.56	5.67
TREASURIES	Yield		FOREX	Price		Wk %Change
2-Year	2.28		Euro/Dollar	1.10		-0.58
5-Year	2.54		Dollar/Yen	121.98		2.36
10-Year	2.48		GBP/Dollar	1.32		0.18
30-Year	2.59		Dollar/Cad	1.25		-0.95

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The general dynamic in which geopolitical incidents cause spiking commodity prices that lead to margin calls that trigger market dislocations is a tale as old as time. Nickel recently became a victim of supply concerns brought on by the Russia-Ukraine war. Class 1 nickel must be at least 99.8% pure and is used to make rechargeable batteries for the electric vehicle market, portable computers and power tools. Class 2 has lower nickel content and is used primarily in stainless steel. There has been a worldwide Class 1 nickel shortage for several years. A Bank of America research report last year estimated that the high-grade nickel shortfall is approximately 41,000 metric tons, roughly the amount used in 620,000 electric vehicle batteries. According to Reuters, Norilsk Nickel (a Russian nickel and palladium mining and smelting company), which produces approximately 17% of global class 1 metal supply, has not been sanctioned. The uncertainty about sanctions and worries that Russia would block exports will likely continue to propel prices higher. Upward pressure on nickel prices will likely get passed through to consumers and potentially impact continued growth in the hybrid and electric vehicle markets within Europe and the U.S.

Economy

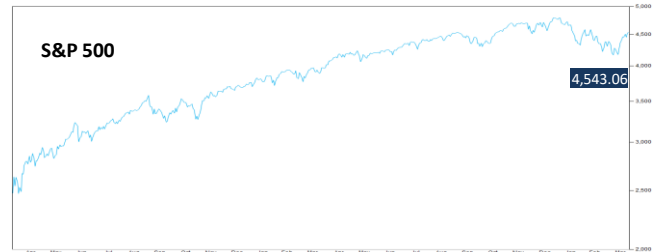
The economic headliner this week was the durable goods report, which was released on Thursday. Overall, new orders for durable goods declined 2.2% in February, which was less than consensus expectations. Over the past year, these orders are up 10.3%. Excluding the volatile transportation sector, core capital goods orders decreased 0.3% and core capital goods shipments increased 0.5%. Shipments are a key input for business investment in the calculation of GDP. On Wednesday, new home sales disappointed expectations, posting a drop of 2.0% to 772,000 units at an annual rate in February. The median sales price of a new home sold has risen 10.7% over the past 12 months. Initial jobless claims dropped again, falling from 215,000 to 187,000 during the week ending March 19th. This is the lowest level for claims since September 1969. The four-week moving average is now at 211,750. Finally, on Friday, the University of Michigan consumer sentiment index declined 3.4 points to 59.4. This metric is now down 28.9 points from its recent high in April 2020.

Fixed Income/Credit Market

This week's selloff in the bond market moved rates higher across all tenors with the 10-year Treasury yield jumping to 2.49% from the prior week's close at 2.16%. Despite the 10-year seeing a significant increase in yields, the 2/10 spread continued to flatten to 20 basis points (bps) with the 2-year UST yield moving 35 bps higher to 2.29%. Further commentary from the Fed, specifically their willingness to hike rates by 50bps in future FOMC meetings to curb inflation, has certainly been a driving factor in the overall market sentiment. The MOVE Index (Merrill Lynch Option Volatility Estimate), a yield curve weighted index of implied volatility on 1-month Treasury options, saw notable movement this week increasing to 113.14, a 23.3% increase from the prior week, which currently sits 88.5% higher than its 5-year average of 60.02. Given the MOVE Index had such a substantial increase this week from an already high base number, it shows the degree of uncertainty and ongoing volatility in the fixed income market.

Equities

U.S. equities sold off on Monday, following the S&P 500's best week since November 2020. Major themes focused on skepticism regarding ceasefire talks between Russia and Ukraine and the Fed's consideration of raising rates at each of their remaining meetings by 50bps increments. On Tuesday, equities bounced back from their losses closing the day higher with no specific catalyst behind the move. Wednesday and Thursday were uneventful as major indices experienced minor fluctuations between the two trading days. U.S. equities mainly finished higher after a quiet Friday trading session. The S&P 500, the Dow and Nasdaq finished the week on a positive note closing at 1.79%, 0.31% and 1.98%, respectively. Energy and materials were the best performing sectors closing at 7.42% and 4.10%, respectively. Healthcare and real estate underperformed closing at -0.23% and 0.39%, respectively. Growth stocks slightly outperformed value for the week.



Our View

The approximate definition of a soft economic landing is when the Fed tightens monetary policy to the point where it weighs on aggregate demand and inflation can be brought down to a comfortable level while not causing the economy to spiral into a recession. The Fed's track record of orchestrating soft landings has not been robust, but there have been instances when it has been accomplished. For example, back in the mid-1990s, the Fed doubled the Fed Funds rate to 6% and still avoided a recession. The tightening of financial conditions during that time period caused massive losses in the fixed income realm, but economic growth remained positive. There is no question that the Fed has an enormous task ahead in bringing down elevated inflation without making a policy mistake. However, recently Fed Chairman Powell said the economy was "very strong and well positioned to handle tighter monetary policy." The good news is that the U.S. consumer, in aggregate, is currently in very good shape with ample pent-up savings coupled with a tight labor market. Moreover, the business cycle in the U.S. is still on solid ground with the Conference Board's Leading Economic Index (LEI) up 7.6% year-over-year as of its most recent reading. But, the Fed certainly has its hands full in terms of headwinds due to the horrific war in Ukraine, elevated inflation and continued impacts from the pandemic. The Fed, which incorrectly viewed inflation as "transitory" last year, clearly sees itself behind the curve in terms of reigning in inflation and is willing to increase interest rates at 50 basis point intervals if the data warrants it. The next FOMC meeting announcement will occur on May 4th and according to Fed Funds Futures, a 50-basis point rate hike is almost priced in at this juncture. The Fed is clearly laser focused on inflation and is less likely to be supportive of the economy until inflation subsides. With elevated levels of economic and market uncertainty, the window for a soft landing by the Fed appears to be becoming increasingly tighter. Furthermore, it is important for investors to review their current asset allocations and ensure that they reside close to the strategic objectives.

COMING UP NEXT WEEK		Consensus	Prior
03/29 Consumer Confidence	(Mar)	107.0	110.5
03/30 ADP Employment Survey SA	(Mar)	425.0K	475.0K
03/31 Initial Claims SA	(03/26)	195.0K	187.0K
04/01 Nonfarm Payrolls SA	(Mar)	450.0K	678.0K
04/01 Unemployment Rate	(Mar)	3.7%	3.8%
04/01 Markit PMI Manufacturing SA (Final)	(Mar)	57.8	58.5
04/01 ISM Manufacturing SA	(Mar)	59.0	58.6

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