PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

April 1, 2022

4/1/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,818.27	-42.97	-0.12	1.85	-4.18	5.02
S&P 500	4,545.86	2.80	0.06	1.37	-4.62	12.47
NASDAQ	14,261.50	92.20	0.65	0.69	-8.84	5.80
S&P MidCap 400	2,710.15	-2.28	-0.08	1.51	-4.64	2.40

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.46	Euro/Dollar	1.10	0.47
5-Year	2.57	Dollar/Yen	122.86	0.71
10-Year	2.38	GBP/Dollar	1.31	-0.65
30-Year	2.44	Dollar/Cad	1.25	-0.09

Source: Bloomberg/FactSet

What Caught Our Eye This Week

On Thursday, the Biden administration announced that it intends to release one million barrels of oil per day (approximately 1% of global demand) from the Strategic Petroleum Reserve (SPR) over the next six months, or 180 million barrels in total. Releases from the SPR have been rare since it was created following the 1973 energy crisis. This will be the largest release in its history and represents the first time it has been used since 2011, when millions of barrels of oil were released to mitigate a huge disruption in global oil supply because of a conflict in Libya. RBC Capital Markets estimates that taking 180 million barrels out now would bring the SPR toward a critical 300 million barrels in reserve, leaving no effective cushion. Because International Energy Agency member countries are required to hold 90 days of net import cover in reserves, the U.S. must hold 315 million barrels, the RBC report noted. The tactic has drawn its share of criticism as several industry observers note that the SPR has traditionally been used to offset obstructions or stoppages in the supply of oil rather than to influence the price of the commodity.

Economy

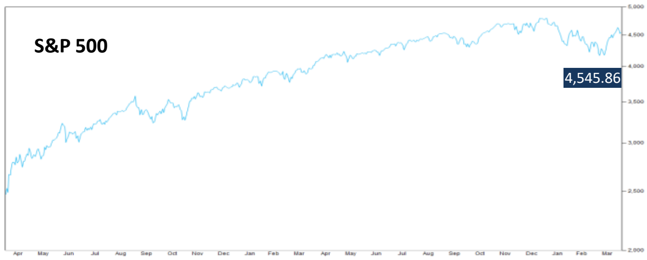
The main economic release this week came on Friday with the U.S. employment report. March's nonfarm payrolls rose by 431,000 for the month, which was the weakest pace of job creation in six months; however, February payrolls were revised to 750,000 from its previous number of 678,000. Similarly, January's payroll revision added another 23,000, making the total two-month net revision 95,000+. Average hourly earnings continued to remain elevated due to the tight labor market and were up 5.6% year-over-year on an hourly basis. The report also showed that the national labor force rose by 418,000 and employment increased to 736,000. As a result, the unemployment rate fell to roughly 3.6%, down from its previous calculation of 3.8%. Furthermore, goods producers added 60,000 jobs with the following breakdown: 38,000 in manufacturing, 19,000 in construction and 3,000 in mining. The private services sector added 366,000 jobs. Leisure and hospitality added 112,000 jobs, businesses services added 102,000, trade and transport added 54,000, and education and health added 53,000. In other news, personal income was up 0.5% on a year-over-year basis in February.

Fixed Income/Credit Market

A material shift higher in interest rates along the U.S. Treasury yield curve during the first quarter (1Q) of 2022 drove losses in all the fixed income sectors that we follow. Treasury yields increased anywhere from 10.3 basis points (bps) to 160.2 bps. The benchmark 2-year and 10-year tenors rose 160.2 bps and 82.9 bps, respectively. The worst performers during the quarter were long-term bonds, emerging market debt (non-currency hedged), and international Treasuries which had respective total returns of -10.48%, -9.71%, and -7.78%. On the other end of the spectrum, senior loans, 0-5 year high yield bonds, and short-term Treasuries suffered much smaller losses at -0.71%, -2.37%, and -2.53%, respectively. It is widely expected that the Federal Reserve will hike rates an additional 50 bps in May followed by 50 bps at the June or July meeting so the pain trade across all fixed income sectors may be far from over. Investors should therefore be cautious positioning portfolios.

Equities

U.S. equities traded near their best levels on Monday, extending the gains from the prior two weeks. On Tuesday, this trend continued, with the S&P 500 closing approximately 3.5% off early January's record close. The four-day streak of gains broke on Wednesday as U.S. equities finished lower due to skepticism about Russia and Ukraine ceasefire talks, Fed policy tightening, and Covid trends in China. On Thursday, equities weakened further and closed a difficult quarter for U.S. equities (worst quarterly performance since first quarter 2020). There was a slight rebound on Friday following a late-session surge. The S&P 500, Nasdaq, and Dow finished the week at +0.06%, +0.65%, and -0.12%, respectively. REITs and utilities were the leaders this week, up +4.51% and +3.71%, respectively. Growth outperformed value.



Our View

The week wrapped up a very notable and eventful quarter for the financial markets. It was the first quarterly decline for equities since the Covid-19 virus emerged in Q1 2020, and interest rates spiked across the yield curve, causing negative returns for all significant bond indexes. Investors have been focused on the Federal Reserve as it prepares for a protracted fight against inflation. The repositioning of the Fed's monetary policy, and its possible impact on the economy and interest rates, has altered the view of many investors. The Fed has started a well-signaled tightening cycle. Many market participants expect interest rates to rise rapidly until rates reach the neutral rate (believed to be approximately 2.25%). The financial markets, since the financial crisis in 2008, have generally been the benefactor of a highly accommodative monetary policy and an expanding Federal Reserve balance sheet. With interest rates pinned at the zero lower bound and the seemingly ever-expanding Federal Reserve balance sheet (which is over $8.8 trillion today), the Fed has profoundly distorted the cost of capital and risk analysis. In normally functioning markets, money is allocated to projects that attain a reasonable hurdle rate, but the abnormally lower cost of capital allows business ventures to get funded that ordinarily would not be economical. Concerns about elevated and persistently high inflation and the risk of rising inflation expectations have shifted the Fed's priorities toward emphasizing price stability. Financial markets, in the first quarter, began the process of repricing and accounting for the reality that the Fed will not be willing to backstop markets at the expense of higher inflation. The yield curve has experienced a bearish curve flattening that has mostly erased the spread between the 2-year and 10-year U.S. Treasury Notes. Longer duration bonds and equities with little earnings but high growth potential have been under significant price pressure. We have a long way to go in the tightening cycle, and we would expect periods of volatility as the process plays out. Valuation metrics are also likely to drift lower over time even as earnings growth, in a reasonably stable economy, continues to support equities.

COMING UP NEXT WEEK		Consensus	Prior
04/04 Durable Orders SA M/M (Final)	(Feb)	-2.2%	-2.2%
04/04 Factory Orders SA M/M	(Feb)	0.50%	1.4%
04/05 Markit PMI Services SA (Final)	(Mar)	58.9	58.9
04/05 ISM Non-Manufacturing SA	(Mar)	60.5	56.5
04/07 Initial Claims SA	(04/02)	-	202.0K
04/07 Consumer Credit SA	(Feb)	$20.0B	$6.8B
04/08 Wholesale Inventories SA M/M (Final)	(Feb)	2.1%	2.1%

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