Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

June 17, 2022

6/17/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	29,888.78	-1504.01	-4.79	2.21	-17.75	-11.63
S&P 500	3,674.84	-226.02	-5.79	1.74	-22.90	-12.96
NASDAQ	10,798.35	-541.67	-4.78	0.94	-30.98	-23.75
S&P MidCap 400	2,220.49	-182.58	-7.60	1.86	-21.87	-16.62

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	3.19	Euro/Dollar	1.05	-0.69
5-Year	3.35	Dollar/Yen	135.30	0.79
10-Year	3.23	GBP/Dollar	1.22	-1.31
30-Year	3.28	Dollar/Cad	1.31	2.18

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Elon Musk's $44 billion offer to take Twitter private will be the second largest buyout in history. In announcing the offer, Mr. Musk wrote that the social media company needed to become private "to go through the changes that need to be made". Companies usually go private when they are purchased by a private equity firm or other investor consortium. The buyout of Twitter by an individual is an outlier. Companies that go private are no longer listed or traded on a public stock exchange. Going private also reduces their requirement to report financial information to the Securities and Exchange Commission (SEC) or follow many of its rules. Without the short-term focus on quarterly earnings, private companies have greater flexibility to focus on long-term functions and strategic goals that will help reach their potential. Besides Twitter Inc., software companies McAfee Corp. and Citrix Systems Inc. have announced public-to-private transitions in recent months. Announced transactions in 2021 rose to 47 from 33 in 2020, according to financial data firm Dealogic. Through June 6th of this year, that figure stands at 32, compared with 20 during the same period last year.

Economy

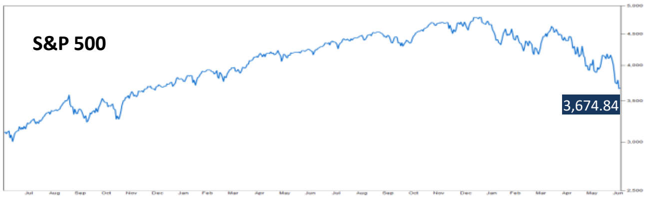
On Tuesday, the Producer Price Index showed an increase of 0.8% in May, matching consensus expectations. Producer prices are now up 10.8% versus a year ago. This is a modest improvement from the 10.9% reading in April and 11.5% reading in March. On Wednesday, the May retail sales report was released and showed that retail sales declined 0.3% during the month. This came in much lower than expectations, which were for an increase of 0.1%. With that said, retail sales are still up 8.1% year-over-year. The drop in sales in May was led by autos and non-store retailers (internet and mail-order), while the largest gain was for gas stations. In other news, housing starts declined 14.4% in May to a 1.549 million run rate, well below consensus expectations of 1.701 million. This is the largest monthly decline since the early days of the pandemic. Over the past year, single-family housing starts are down 5.3% while multi-family starts are up 0.6%. Finally, industrial production increased 0.2% in May, which was below expectations for an increase of 0.4%. Even though the number was below consensus, it still indicates that industrial activity continues to recover given that May was the fifth month in a row of industrial production gains.

Fixed Income/Credit Market

Where U.S. Treasury yields end Friday does very little to depict the tug-of-war that occurred throughout the week. On Monday, rates across the U.S. Treasury curve surged as much as 47.5 basis points (bps) on the front-end while the 10-year note increased 20.6 bps. On Tuesday, the sell-off slowed down but not before yields traded anywhere from 1.4 bps lower to 17.6 bps higher. Heading into the FOMC meeting on Wednesday, rates were rallying back and decreased 0.9 bps to 24 bps on the day. The rally slowed on Thursday, however, rates were down another 2.5 bps to 11.2 bps at the close. Week-over-week, the movement in note yields appears subtle with net increases of 7.5 bps to 11.2 bps. T-Bill yields tell another story with net increases on the week from 8.4 bps to 35.7 bps. The 10-year note closed Friday at 3.23% just 7.5 bps above where it closed the week prior and traded in a range of approximately 3.16% to 3.48%. 2-year notes end the week 10.5 bps higher but traded between roughly 3.07% and 3.43%.

Equities

U.S. Equities started the week lower, with the S&P 500 posting its worst day since May 18th, slipping into bear market territory. Inflation and Fed themes were constant after May's CPI report came in higher than expected. The FOMC meeting received most of the attention during Tuesday's decline with expectations gravitating to a 75 basis points (bps) rate hike instead of the previously anticipated 50 bps rate hike. The Fed raised rates by 75 bps to 1.50-1.75% on Wednesday, and markets reacted positively to the news as all major U.S. indices ended the day sharply higher. The S&P 500 broke its five-day streak of declines, ending the day +1.46%. Thursday trading erased Wednesday's gains, with the S&P 500 touching its lowest levels since December 2020 and the NASDAQ since September 2020. Concern over inflation was the major driver of Thursday's trading. Major U.S. indices closed with another week of losses after an uneventful Friday trading ahead of the holiday weekend. The S&P 500 finished the week -5.79%, NASDAQ -4.78%, and the DOW closed -4.79%. The best performing sector was Consumer Staples, and the worst performer was Energy.



Our View

Last week's release of May's Consumer Price Index, up 8.6% year-over-year, was a clear red flag for the Federal Reserve that inflation has not peaked, and more forceful action will be required to corral inflation. The Fed is afraid that long-run inflation expectations will become unanchored and rise significantly from the current 2.6% level, according to the 10-year U.S. breakeven inflation rate. Perhaps more important, the Fed needs to maintain its credibility regarding its willingness and resolve to fight inflation. The Fed raised the Fed funds target range by 75 basis points (bps) to 1.50%-1.75% last Wednesday. The Fed also signaled its determination to get control of the inflation situation by revising its median Fed funds forecast for 2022 to 3.4% from 1.9%, suggesting an aggressive rate-hiking path ahead. By year-end, the Fed will achieve a restrictive monetary policy with the Fed funds rate above the neutral rate. The Federal Reserve last hiked rates by 75 bps in November 1994, and Alan Greenspan was the Fed Chairman. The situation was very different. The economy was strong, but inflation was only running at 2.7%. Greenspan was making a pre-emptive strike to keep inflation under control. During that hiking period, the Fed funds rate went from 3.00% to 6.00% in just over one year, ending with a 50-basis point increase in February 1995. Mr. Greenspan was able to engineer a soft landing successfully. The Powell Fed is trying to create the same soft-landing outcome. The financial market's uncertain and erratic reaction to the Fed's policy announcement indicates a high level of anxiety that the Fed will not be able to succeed. We understand the market's skepticism. Since inflation is already elevated, the Fed has a more difficult task than it had back in 1994, but the Fed does have more of an economic cushion. In 1994, the unemployment rate was roughly 6.0% versus today's 3.6%, plus there is a 5.1 million gap between the number of unfilled jobs and people looking for work. So, the Fed can meaningfully constrict financial conditions to slow demand without causing significant economic pain. With a more aggressive Fed, the prospects of soft-landing or a shallow recession as opposed to stagflation (the worst possible outcome) seem much higher today.

COMING UP NEXT WEEK		Consensus	Prior
06/21 Chicago Fed National Activity Index	(May)	0.41	0.47
06/21 Existing Home Sales SAAR	(May)	5,370K	5,610K
06/23 Markit PMI Manufacturing SA (Preliminary)	(Jun)	56.3	57.0
06/23 Markit PMI Services SA (Preliminary)	(Jun)	53.9	53.4
06/24 Michigan Sentiment NSA (Final)	(Jun)	50.1	50.2
06/24 New Home Sales SAAR	(May)	590.0K	591.0K

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