PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

May 6, 2022

5/6/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	32,899.37	-77.84	-0.24	1.97	-9.46	-4.77
S&P 500	4,123.34	-8.59	-0.21	1.51	-13.49	-1.87
NASDAQ	12,144.66	-189.98	-1.54	0.81	-22.37	-10.92
S&P MidCap 400	2,480.95	-19.31	-0.77	1.64	-12.70	-9.46

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.70	Euro/Dollar	1.06	0.32
5-Year	3.08	Dollar/Yen	130.41	0.65
10-Year	3.15	GBP/Dollar	1.24	-1.61
30-Year	3.24	Dollar/Cad	1.29	0.76

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Since the 1970's, the Federal Reserve has had a dual mandate from Congress: maintain maximum employment and keep prices stable. With inflation at its highest level in 40 years, the Federal Reserve's hawkish stance can have big implications for the housing market. According to the S&P CoreLogic Case-Shiller National Home Price Index, U.S. home prices soared 19.8% year-over-year in February, the third highest monthly increase in the past 35 years. In December, the average 30-year mortgage rate was 3.11%. Today it is 5.375%. Housing prices have climbed 34% over the last two years. Realtor.com economists believe that the rates of return that we are witnessing in the housing market are unsustainable. Moody's Chief Economist, Mark Zandi, agrees with this assessment. He says prices have already started to soften, and he expects the cooling off to intensify in the coming months. By this time next year, he predicts year-over-year home price growth will be at zero, but he does not foresee a national home price correction. However, he does believe that some of the most overpriced markets could see prices decline up to 10% over the coming year.

Economy

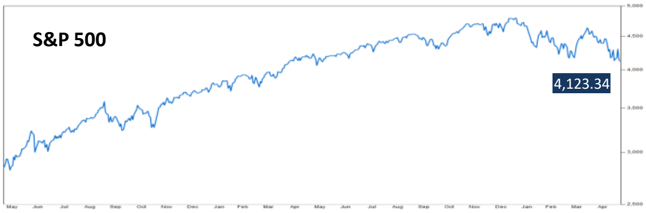
The economic headliner this week was the nonfarm payroll report which was released on Friday. This report showed payrolls increasing 428,000 in April and the unemployment rate unchanged at 3.6%. The broad U-6 measure of unemployment rose to 7.0%, and the labor force participation rate declined 0.2% points to 62.4%. Average hourly earnings increased 10 cents to $31.85 and the average workweek held at 34.6 hours. The payroll diffusion index was unchanged at 71.3. Regarding the different employment sectors, professional and business added 41,000 jobs, manufacturing gained 55,000 jobs, and leisure and hospitality secured 78,000 jobs. Looking back at the February and March employment data, there were negative revisions totaling 39,000. In other news this week, the ISM manufacturing survey dropped from 57.1 in March to 55.4 in April. This disappointed investors and it is the lowest level going back to September 2020. Finally, the JOLTS report (job openings & labor turnover survey) showed 11.549 million job openings on 3/31/22 and a quits rate of 3.0%. The net change in employment over the past twelve months ending 3/31/22 is 6.3 million.

Fixed Income/Credit Market

April was another lousy month for all the fixed income sectors that we follow. The worst performing sectors were long-term bonds, international Treasuries, and emerging market debt (non-currency hedged) which had respective total returns of -9.51%, -6.97%, and -6.67%. The top performing sectors in April also suffered losses but not with the same severity. Short-term Treasuries, senior loans, and short-term high-quality bonds returned -0.48%, -0.69%, and -0.99%, respectively. Additionally, Bloomberg's U.S. Government/Credit Index and U.S. Aggregate Index declined 3.96% and 3.79%, respectively, in April. This dichotomy indicates that in the current environment (a rapid rise in interest rates), short duration seems to be a better safeguard than credit quality. During April, rates increased anywhere from 19.7 basis points (bps) to 60.7 bps across the U.S. Treasury yield curve. The yield increases on the benchmark 2-year and 10-year Notes were 38.1 and 59.7 bps, respectively.

Equities

On Monday, U.S. equities opened the week on a mixed note with the S&P 500 declining to a fresh 52-week intraday low before ultimately closing higher. Energy was the biggest gainer in Tuesday's volatile trading as the day ended with all major U.S. indices closing higher as investors shifted their focus to the FOMC meeting. U.S. Equities finished sharply higher in Wednesday trading as the FOMC announced its widely anticipated 50 basis point rate hike and plans for trimming its balance sheet while noting that a 75 basis point rate hike was "not actively" being considered. The post-FOMC rally was erased in Thursday trading as all major U.S. indices closed just off their worst levels. The Nasdaq ended the session down -4.99%, which was the Nasdaq's worst performance since June 2020. Equities remained lower during Friday trading after the sell-off on Thursday. U.S. indices ended the week with the S&P 500 down -0.21%, the Nasdaq -1.54%, and the Dow -0.24%. Energy was the best performing sector, while real estate was the worst performer. Value outperformed growth for the week.



Our View

The FOMC released its statement on Wednesday following a two-day policy meeting and increased rates by 50 basis points (bps), which was the largest rate increase since May of 2000. With the Fed's preferred measure of inflation (core PCE) running well above its target, the Fed has the daunting task of trying to tame inflation running at multi-decade highs while attempting to orchestrate a soft economic landing. Moreover, Fed Chairman Powell stated that "inflation is much too high and we understand the hardship it is causing, and we're moving expeditiously to bring it back down." Furthermore, real wages, which incorporate the rate of inflation, have declined for the past 12 months. Fed officials are going to raise rates until they find the neutral rate, which in theory should neither speed up nor slow down the economy and allow inflation to run at a moderate level. The problem is that the neutral rate is dynamic in nature and is often not known until after the fact. A major challenge for the Fed moving forward will be how quickly it should tighten monetary policy if economic growth continues to slow, the labor market softens, and consumers start to decrease spending. Currently, the market is expecting the Fed to raise rates by 50 bps at both the June and July meetings as a 75 basis point rate increase at either meeting has been taken off the table for now. An additional notable factor introduced at this week's FOMC meeting was the formal announcement of the official start of the quantitative tightening process. More specifically, starting June 1st, the Fed is going to start shrinking its balance sheet that has grown to roughly $9 trillion. The initial monthly roll-off cap will begin at $47.5 billion ($30 billion of U.S. Treasuries and $17.5 billion of agency mortgage-backed securities) and then double after three months starting in September. At this pace of quantitative tightening, the Fed's balance sheet is expected to shrink from 36.6% of GDP as of the first quarter of 2022 down to 23% of GDP by the end of 2024. The Fed is acutely focused on taming inflation, and high levels of market volatility should be expected until clarity is obtained that inflation is no longer running at an elevated level.

COMING UP NEXT WEEK		Consensus	Prior
05/11 CPI SA M/M	(Apr)	0.20%	1.2%
05/11 CPI NSA Y/Y	(Apr)	8.1%	8.5%
05/12 Initial Claims SA	(05/07)	185.0K	200.0K
05/12 PPI SA M/M	(Apr)	0.40%	1.4%
05/12 PPI NSA Y/Y	(Apr)	10.6%	11.2%
05/13 Export Price Index NSA M/M	(Apr)	0.60%	4.5%
05/13 Import Price Index NSA M/M	(Apr)	0.50%	2.6%
05/13 Michigan Sentiment NSA (Preliminary)	(May)	62.6	65.2

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