PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

January 21, 2022

1/21/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,265.37	-1646.44	-4.58	1.84	-5.70	9.91
S&P 500	4,397.94	-264.91	-5.68	1.38	-7.73	14.14
NASDAQ	13,768.92	-1124.83	-7.55	0.70	-11.99	1.76
S&P MidCap 400	2,594.49	-188.15	-6.76	1.50	-8.71	5.76

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.02	Euro/Dollar	1.13	-0.76
5-Year	1.58	Dollar/Yen	113.67	-0.11
10-Year	1.77	GBP/Dollar	1.36	-0.94
30-Year	2.08	Dollar/Cad	1.25	-0.08

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Yesterday's quarterly earnings from Netflix included news that the company anticipates adding fewer subscribers this quarter than it did a year ago as it adjusts to mounting competition and ongoing disruptions from the coronavirus pandemic. This development and upcoming earnings reports from other streaming media providers has investors reassessing their views on the industry and its intense competition for subscribers. In 2020, a record-setting 7,000,000 American households let go of their traditional pay TV packages and as of October 2021 another 27% planned to "cut the cord" by year end. In addition, 93% of current subscriber households plan to increase or maintain their streaming subscriptions over the next year. The sharp climb in cord-cutting is attributed to the rise of digitalization, people's lack of time for traditional TV, and the availability of more/different types of content. 91% of U.S. households subscribe to at least one streaming service and the average American household pays for four services annually, spending $47 per month on average. Their feedback is that streaming platforms are byzantine, pricey, difficult to use, and not terribly personal. Amidst a streaming space that is congested, companies have more work to do as they battle for recognition in the streaming platform evolution.

Economy

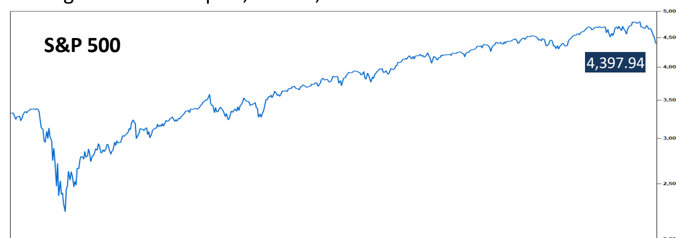
This week the economic data centered around housing statistics with the release of existing home sales, housing starts and the NAHB survey. On Tuesday, the NAHB survey (National Association of Home Builders) disappointed expectations, dropping from 84 in December to 83 in January. Housing starts and permits were released on Wednesday and these figures surpassed expectations, with total starts increasing 1.4% to 1.702 million units at an annual rate. New building permits advanced 9.1%, multifamily starts gained 10.6% and single-family starts fell 2.3%. Multifamily starts are now up 53.2% year-over-year and permits have surged 41.9%. In total 1.598 million homes were started in 2021, which is the most since 2006. On Thursday, existing home sales posted a 6.0% decline in December to 6.18 million units at an annual rate. These figures came in below expectations as the inventory of homes available for sale hit an all-time low in December. The median sales price of an existing home sold soared 14.6% year-over-year to $358,000. In total 6.12 million existing homes were sold in 2021, the most since 2006, an increase of 8.5% over 2020.

Fixed Income/Credit Market

It is expected that at next week's FOMC meeting, the Fed will signal the beginning of an interest rate hiking cycle in March followed by the reduction of its $8.8 trillion balance sheet shortly thereafter. Together, those projections have contributed to a surge in U.S. Treasury yields during the first three weeks of trading in 2022. While nominal yields are up as much as approximately 34 basis points year-to-date, the more important story is the impact the back up in rates has had on real yields. U.S. 10-year TIPS (Treasury Inflation-Protected Securities) are currently trading at a yield of -0.61, up from a pandemic low of -1.21 as recently as November 9, 2021. Ultra-easy monetary policy has pushed Treasury yields well below the expected rate of inflation for most of the pandemic era, but the tide is set to change as monetary policy tightens. For context, since the inception of 10-year TIPS in January 1997, the average yield has been 1.45%. During the Great Financial Crisis of 2007-2008, 10-year TIPS averaged 1.96% and bottomed out in March 2008 at roughly 1.08%.

Equities

U.S. domestic equities faltered for the third consecutive week as all major indices reported deep losses. Both the S&P 500 and Dow fell -5.68% and -4.58%, respectively. The Nasdaq suffered a -7.55% drop and entered correction territory, as the prospect of higher interest rates has hit speculative names and growth stocks particularly hard. Peloton and Netflix captured investors' attention after plunging -13.63% and -24.39%, respectively, on the week after negative press and disappointing earnings releases. Even with the impending hikes, interest rates are expected to remain near their historic lows, which investors hope will ultimately support markets. Furthermore, next week's corporate earnings releases should provide more clarity on how investors can set expectations for the coming quarters. On the sector front, all finished the week with losses; however, utilities performed best with only a -0.79% slide. On the other end, consumer discretionary dropped -8.49%. Value, -4.58%, outperformed its growth counterpart, -6.99%, on the week as well.



Our View

The FOMC meets this upcoming week and there will certainly not be a shortage of topics to discuss. With inflation running at the highest level in four decades while the labor market is close to full employment and 2022 U.S. GDP is projected to grow at roughly 4%, the need for highly accommodative monetary policy has undoubtedly passed. Unsurprisingly, the Fed announced the tapering of its asset purchases back in November and currently plans to conclude its balance sheet expansion by mid-March of this year. The market has now fully priced in at least a 25 basis point rate hike at the March FOMC meeting and predicts the Fed funds rate will rise by roughly 100 basis points over the course of 2022. Once the Fed starts increasing rates, the next logical step in monetary policy tightening will be to reduce the size of its balance sheet, which has more than doubled since the start of the pandemic to over $8.8 trillion, in a process known as quantitative tightening (QT). The last time the Fed embarked on QT was in 2017 and the economic environment was considerably different. Moreover, back in 2017, GDP was growing at less than half of its current pace, core PCE was under 2% and the Fed's balance sheet equated to 23% of GDP, which is considerably smaller than its current ratio of 36.5%. With that being said, the latest Fed minutes indicate that QT may need to start earlier and ramp up more quickly when compared to the previous cycle due to the stronger current economic momentum. Once QT starts, it will begin the process of pulling money out of the financial system and could cause some borrowing costs to rise. This will in turn tighten financial conditions and act as a headwind to the economic expansion. The previous period of QT in the U.S. only lasted 2 years and during that timeframe market volatility increased and credit spreads pushed wider. However, the Fed now has an expanded toolset, which includes the Standing Repo Facility, to help combat financial market strains as it begins the QT process. The communication process regarding QT will be crucial and market participants will need to be given ample time to react to the tighter monetary policy ahead.

COMING UP NEXT WEEK		Consensus	Prior
01/24 Markit PMI Manufacturing SA (Preliminary)	(Jan)	56.6	57.7
01/25 Consumer Confidence	(Jan)	110.0	115.8
01/26 New Home Sales SAAR	(Dec)	760.0K	744.0K
01/27 Durable Orders SA M/M (Preliminary)	(Dec)	-0.40%	2.6%
01/27 GDP Chain Price SAAR Q/Q (First Preliminary)	(Q4)	5.8%	6.0%
01/28 Personal Income SA M/M	(Dec)	0.50%	0.40%
01/28 Michigan Sentiment NSA (Final)	(Jan)	68.3	68.8

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