



7/8/2022		Wk	Wk		YTD	12 Mos
	Close	Net Change	% Change	Div Yield	% Change	% Change
STOCKS						
DJIA	31,338.15	240.89	0.77	2.11	-13.76	-8.96
S&P 500	3,899.38	74.05	1.94	1.65	-18.19	-9.75
NASDAQ	11,635.31	507.46	4.56	0.87	-25.63	-20.09
S&P MidCap 400	2,320.39	24.50	1.07	1.78	-18.35	-12.39
TREASURIES	Yield					
2-Year	3.11			Euro/Dollar	1.02	-2.10
5-Year	3.13			Dollar/Yen	136.07	0.70
10-Year	3.08			GBP/Dollar	1.20	0.17
30-Year	3.25			Dollar/Cad	1.29	0.16

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The bullwhip effect (also referred to as the Forrester effect) is a supply chain and distribution channel phenomenon. It is named after the physics involved in cracking a whip – a small movement of the wrist can cause a large motion at the whip’s end. Put simply, minor fluctuations in consumer demand can amplify fluctuations in inventory as one moves further up the supply chain level (wholesale, distributor, manufacturer, and raw material supplier). The bullwhip effect can be an unintended consequence of inflation. Higher prices mean American consumers cannot afford to buy as many goods, which results in more goods being stored in warehouses, and leads to higher inventory costs. Ultimately, companies need to adjust prices in order to liquidate excess inventory. Some market participants observe the potential for a mismatch between the demand forecasts and sales across a whole range of industries including semiconductor manufacturers and consumer retailers. This resulting buildup of excess inventory could create deflationary pulses in the economy in the coming months and put pressure on the Federal Reserve to pause or reverse its planned interest rate hikes.

Economy

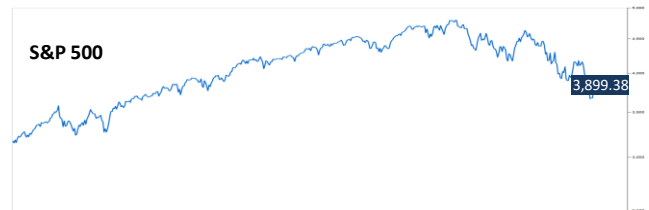
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 372,000 in June and the unemployment rate little changed at 3.6%. The broad U-6 measure of unemployment declined to 6.7% and the labor force participation rate inched down to 62.2%. Average hourly earnings increased 0.3% (10 cents) to \$32.08 and the average workweek dropped to 34.5 hours. Examining the different employment sectors, leisure and hospitality added 67,000 jobs, manufacturing secured 29,000 jobs, and professional and business services gained 74,000 jobs. With respect to the April and May jobs reports there were negative revisions totaling 74,000 jobs. Overall nonfarm employment is still down 524,000 jobs from the pre-pandemic levels (FEB 2020). In other news, this week the ISM services survey decreased from 55.9 in May to 55.3 in June. The new orders index also declined, dropping from 55.9 in May to 55.3 in June. Finally on Wednesday, the JOLTS report (job openings & labor turnover survey) showed 11.254 million job openings on 5/31/22 and a “quits” rate of 2.8%. The net change in employment over the past twelve months was 6.4 million.

Fixed Income/Credit Market

Rates were somewhat volatile this week as U.S. Treasury yields gained anywhere from 14 to 29 basis points (bps) across the curve, given recent economic data and further commitment from the Fed to curb inflation to its 2% target at all costs. Treasury yields surged after Fed minutes left another 75 bp hike on the table for July and continued rising on Friday following a strong jobs report. Since last week, the 2-year U.S. Treasury yield increased 27.4 bps compared to the 10-year yield which rose by 20 bps to 3.08%, resulting in an inverted curve with a spread of -2.6 basis points. It was a different story for municipal bonds this week as they rallied compared to Treasury’s modest sell off. Municipal yields on the 10-year benchmark have decreased by 19.5 bps to 2.56% since last week’s close. Heading into Friday, 10-year municipal debt is yielding 85% of Treasuries, down from 91.2% a week ago.

Equities

U.S. equities started Tuesday trading notably weaker after the holiday weekend but finished the day well off the session’s lows. There was no obvious catalyst for the rebound later in the session that day. Wednesday saw the S&P 500 record its first three-day streak of gains since May as U.S. equities ended the day trading off its best levels. Bullish talking points such as moderating inflation and Fed rate hikes were upside drivers for the day as investors began to shift their focus towards the Q2 earnings season. On Thursday, the S&P 500 posted gains for its fourth consecutive session. The session was mostly uneventful with a limited number of headlines during trading. U.S. equities ended Friday trading slightly weaker but closed higher for the week as the focus shifted once again towards company earnings over the next few weeks. The week ended with the following indices up: S&P 500 +1.94%, the DOW +0.77%, and the NASDAQ +4.56%. Communication Services was the best performing sector with Utilities the worst performer for the week. Growth outperformed value for the week.



Our View

The Fed minutes from the meeting in June were released this week and policy makers were laser-focused on fighting inflation so that inflation expectations do not become unmoored. Moreover, “participants recognized that ongoing policy firming would be appropriate if economic conditions evolved as expected.” With the labor market healthy and tight while inflation is running well beyond the Fed’s flexible average target of 2%, Fed policy makers believe rates must rise to a restrictive level in order to bring inflation back in-line with the previously-mentioned target. The Fed’s next meeting is on July 27th and the market is pricing in an approximate 90% probability that the Fed funds rate will increase another 75 basis points to a target range of 2.25% to 2.50%. The path of future rate hikes is anything but certain as more restrictive monetary policy tightens financial conditions, weighs on consumer demand, slows economic growth and pulls forward the next recession. Furthermore, consumer confidence has weakened considerably, and commodity prices have retrenched materially over the recent past. Market based inflation expectations over the next 2 years (according to the TIPs market) have declined to the low 3% range after peaking in late March of this year at close to 5%. With monetary policy approaching neutral, many economists expected June’s U.S. nonfarm payroll report to weaken, but that was not the case as 372,000 jobs were added during the month, which was well beyond the consensus of 265,000. Moreover, the unemployment rate stayed consistent at 3.6% and average hourly earnings came in stronger than expected up 5.1% on an annualized basis. However, the strength in the labor market should subside in the near future as companies predict more difficult times ahead and begin to curb hiring new employees as job openings start to decline. Monetary policy works with a lag and is a rather blunt instrument. The Fed is looking to curb inflation while guiding the economy towards a soft landing, but the window for the soft landing will close considerably if inflation remains stubbornly high and the Fed must lift rates meaningfully into restrictive territory for an extended period of time.

COMING UP NEXT WEEK		Consensus	Prior
07/13 CPI ex-Food & Energy NSA Y/Y	(Jun)	4.0%	6.0%
07/13 CPI NSA Y/Y	(Jun)	8.7%	8.6%
07/14 PPI SA M/M	(Jun)	0.80%	0.80%
07/15 Retail Sales ex-Auto SA M/M	(Jun)	0.60%	0.50%
07/15 Retail Sales SA M/M	(Jun)	0.65%	-0.30%
07/15 Capacity Utilization NSA	(Jun)	79.2%	80.8%
07/15 Industrial Production SA M/M	(Jun)	0.35%	0.10%
07/15 Michigan Sentiment NSA (Preliminary)	(Jul)	50.0	50.0

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