PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

April 22, 2022

4/22/2022		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	33,811.40	-639.83	-1.86	1.91	-6.95	-0.01
S&P 500	4,271.78	-120.81	-2.75	1.46	-10.37	3.31
NASDAQ	12,839.29	-511.79	-3.83	0.77	-17.93	-7.09
S&P MidCap 400	2,583.21	-45.40	-1.73	1.57	-9.11	-4.34

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.67	Euro/Dollar	1.08	-0.01
5-Year	2.93	Dollar/Yen	128.47	2.03
10-Year	2.90	GBP/Dollar	1.28	-1.56
30-Year	2.95	Dollar/Cad	1.27	0.78

Source: Bloomberg/FactSet

What Caught Our Eye This Week

This week's quarterly earnings from Netflix Inc. (NFLX) could be an important chapter in the battleground for consumer attention and subscription dollars, often referred to as the streaming wars. Netflix is at the center of this fight, a markedly different position from the company's early days or even a few years ago. The company lost 200,000 more paying customers than it gained in the first quarter and predicts it will lose two million more in the second quarter. High household penetration in the United States (75 million subscribers) and many households sharing accounts suggest Netflix could be close to peak adoption in the country, and they struggle for marginal subscribers and revenue growth in an increasingly competitive landscape. Industry analyst Kantar Group reports that in the last three months, 1.5 million households in the United Kingdom canceled a streaming service subscription and 38 percent of those cancelations were made to cut costs proactively. This is atop a separate Nielsen study which reports nearly 50 percent of consumers feel overwhelmed by the number of streaming services available. Viewers will need to choose which revenue sources are most essential. As they do, multiple revenue sources along with a strong content catalog will determine its ability to endure.

Economy

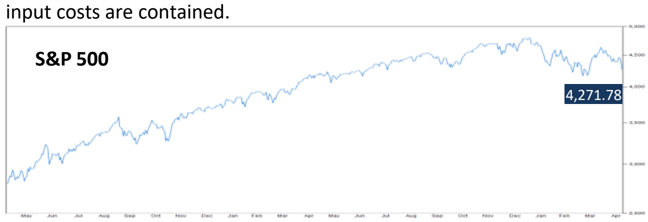
This week the economic data centered around housing statistics with the release of housing starts and existing home sales. On Tuesday, housing starts and permits beat expectations increasing 0.3% and 0.4%, respectively. Housing starts rose to 1.793 million units at an annual rate in March. Multifamily starts advanced 4.6% and permits gained 10.0%. Existing home sales were released on Wednesday and posted a decline of 2.7% in March to 5.77 million units at an annual rate. This figure was very close to expectations, and existing home sales have now declined 4.5% over the past twelve months. The median existing home sales price has soared 15% year-over-year to $375,300. On Monday, industrial production numbers easily beat consensus, increasing 0.9% in March. These figures have advanced for three consecutive months. Manufacturing output rose 0.9%, utilities were up 0.4% and mining gained 1.7%. Overall, capacity utilization increased from 77.7% to 78.3%. Finally, on Thursday, initial jobless claims dropped from 186,000 to 184,000 during the week ending April 16th. The four-week moving average is now at 177,000.

Fixed Income/Credit Market

U.S. Treasury yields were volatile this week, with the 10-year yield climbing as high as 2.98% on Wednesday before it ultimately ended the week at 2.90%, which is 7.4 basis points (bps) higher than the prior week's close. The 5/30 spread was inverted and while the 2/10 spread is no longer inverted, it has flattened to 22 bps given recent expectations of the Fed's actions. Fed speakers took their hawkish approach a step further, with most favoring raising rates by 50 bps in both May and June. Fed Chairman Powell noted that a 50 bp increase is certainly on the table for the FOMC meeting in May and mentioned the idea of front-loading what they think is needed to accommodate the tightening cycle. Following this week's Fed commentary, Fed funds futures are now pricing in nearly 10 hikes of 25 bps and an implied rate of 2.78% by the Fed meeting in December. Moreover, municipal bonds still lagged Treasuries this week with 10-year state and local debt yielding 92.1% of Treasuries compared to 87.7% from a week ago.

Equities

U.S. domestic equities suffered steep losses for the week as investors prepared for interest rate hikes and tighter monetary policies. Fed President Jerome Powell signaled that the Federal Reserve will be moving quickly in its efforts to combat inflation and markets now expect a 50-bps interest rate increase in May. All major indices finished in the red, with losses being broad based. The S&P 500 Index dropped -2.75% on the week, while the Dow and Nasdaq Indices fell -1.86% and -3.83%, respectively. While both were down, large cap value (-2.05%) had a better week than large cap growth (-3.77%.) The communication services sector experienced the steepest selloff, falling -7.74%, while real estate (+2.3%) and consumer staples (+0.39%) were the only weekly gainers. The strength of earnings offered stability and reassurance. According to FactSet, of the companies that have reported, 80% have beaten analysts' expectations. Earnings, along with comments from management, have provided insight to consumer spending and the effects of inflation on margins. Pricing power will be critical for continued earnings growth until input costs are contained.



Our View

The tremendous economic growth in the U.S. economy during 2021 was largely due to the enormous amount of both fiscal and monetary policy stimulus. With inflation growing at the fastest pace since the early 1980s and a huge federal deficit and aggregate debt level, monetary and fiscal policies will now be headwinds to domestic economic growth. In order for the U.S. economic expansion to continue, the consumer, which makes up roughly 68% of the U.S. economy, now has to step up and fill the gap. Luckily, the U.S. consumer, in aggregate, is in very good financial health at this point. Moreover, the flow of personal savings has increased by over $2 trillion since the start of the pandemic as service consumption was restricted and government transfers were received. The U.S. household debt service ratio has declined to 9.3% as of the first quarter of 2022, which is well below the 13.2% figure it stood at prior to the financial crisis of 2008. Furthermore, the Fed's most recent flow of funds report, which includes all the data through 2021, indicates that household real estate wealth increased by an incredible $5.6 trillion. This level of growth is certainly not sustainable, and increasing mortgage rates will slow down the rate of appreciation in the interest rate sensitive housing sector; but the increasing wealth effect from 2021 should have a meaningful impact on consumption in 2022. U.S. consumers should also be encouraged by the strong labor market. With the unemployment rate residing at a very low level of 3.6% and approximately 1.7 job openings for every unemployed person, workers now have more bargaining power than they had before. Moreover, the Employment Cost Index is up 4.0% through the end of 2021 on an annual basis, and is the highest level in approximately two decades. Wages tend to be sticky and the Fed has met its objective of an inclusive labor market recovery, so an expanding labor force would be a welcome development from the Fed's perspective. Furthermore, the Fed must walk a fine line as it tightens monetary policy so that it can slow labor force demand without causing the unemployment rate to increase, which will undoubtedly require monetary policy to be agile moving forward.

COMING UP NEXT WEEK		Consensus	Prior
04/26 Consumer Confidence	(Apr)	108.4	107.2
04/26 New Home Sales SAAR	(Mar)	760.0K	772.0K
04/28 GDP SAAR Q/Q (First Preliminary)	(Q1)	1.7%	6.9%
04/29 Personal Consumption Expenditure SA M/M	(Mar)	-	0.20%
04/29 Personal Income SA M/M	(Mar)	0.40%	0.50%
04/29 Michigan Sentiment NSA (Final)	(Apr)	65.8	65.7

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