Weekly Market Recap

January 10, 2022

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	4,677	-1.9%	-1.9%
Dow Jones Industrial Average	36,232	-0.3%	-0.3%
NASDAQ	14,936	-4.5%	-4.5%
Russell 2000® Index	2,180	-2.9%	-2.9%
MSCI EAFE Index	2,323	0.11	0.11
10-yr Treasury Yield	1.77%	0.3%	0.3%
Oil WTI ($/bbl)	$79.10	5.2%	5.2%
Bonds*	$112.52	-1.4%	-1.4%

Source: Bloomberg, FactSet
*Bonds represented by the iShares U.S. Aggregate Bond ETF

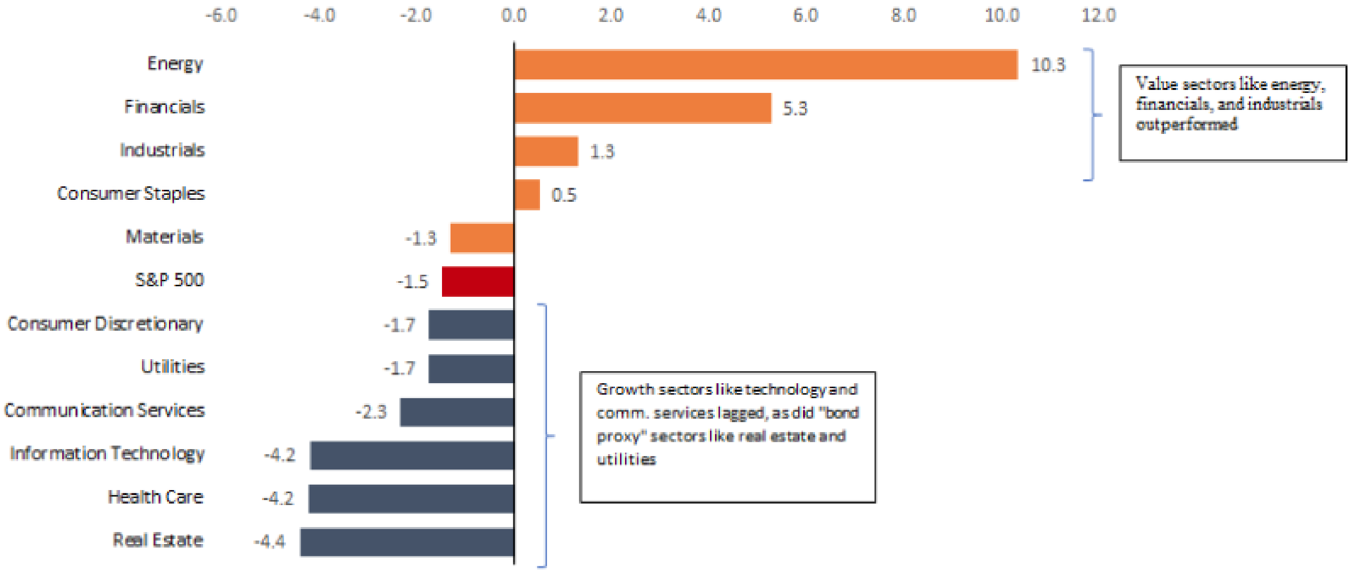
Last Week:

U.S. Equity Market

- U.S. large cap equities (S&P 500 Index) fell 1.9% during the first week of 2022, as the ten-year Treasury Yield increased more than 0.25% to 1.77%, leading to a sell-off in equities, and drove the significant underperformance of growth/technology stocks (-4.5%) relative to value (+1.1%) equities. The interest rate rise was partly a function of hawkish takeaways from the December Federal Reserve meeting minutes, including expectations for a sooner and faster balance sheet runoff. The December Institute for Supply Management (ISM) surveys experienced sequential deterioration, but remained at elevated levels. Nonfarm payrolls disappointed again in December, but other aspects of the report played into the tight labor market narrative. The dollar index fell 0.2%, gold lost 1.7%, and West Texas Intermediate (WTI) crude oil rose +5.2%.
- S&P 500 Index Sector Returns (Price Return):
  - Energy (+10.6%) rallied, as the price of WTI oil increased +5.2%.
  - Financials (+5.4%) increased, led by banks as interest rates increased.
  - Industrials (+0.7%) rose, led by machinery, airlines, and aerospace and defense stocks.
  - Consumer staples (+0.4%) and utilities (-1.6%) outperformed, as investors favored defensive stocks.
  - Materials (-1.5%) fell, led lower by chemical stocks and gold miners.
  - Consumer discretionary (-2.6%) underperformed, with weakness from Tesla (-2.8%), **Amazon** (-2.5%), home retailers, homebuilders, and quick service restaurants.
  - Communication services (-2.7%) fell, led lower by Netflix (-10.2%) and **Alphabet** (-5.4%).
  - Health care (-4.7%) fell, led lower by managed care and biotech.
  - Technology (-4.7%) fell, led lower by software and high-multiple/high-growth tech.
  - REITs (-5.0%) fell, with weakness from data centers and cell towers.

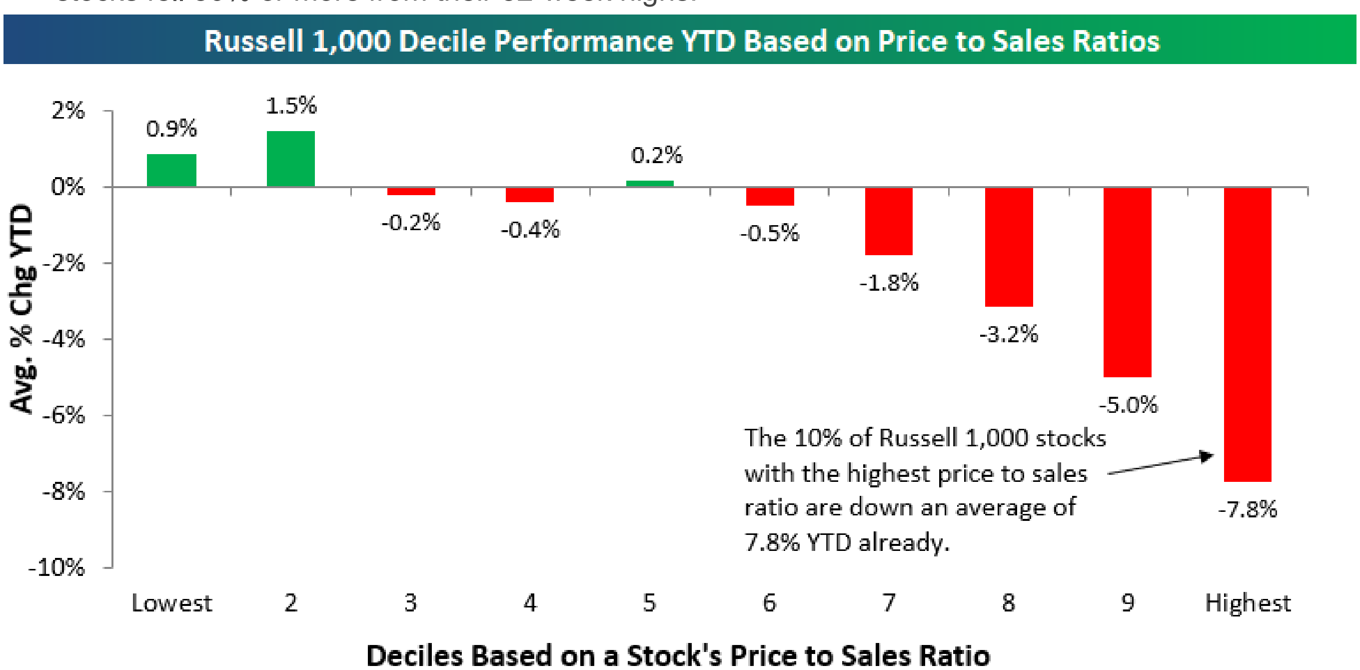
Please reference important disclosures on page 8.

- Growth sectors like technology, communication services, and consumer discretionary underperformed value sectors like energy, financials, and industrials as interest rates rose this week.



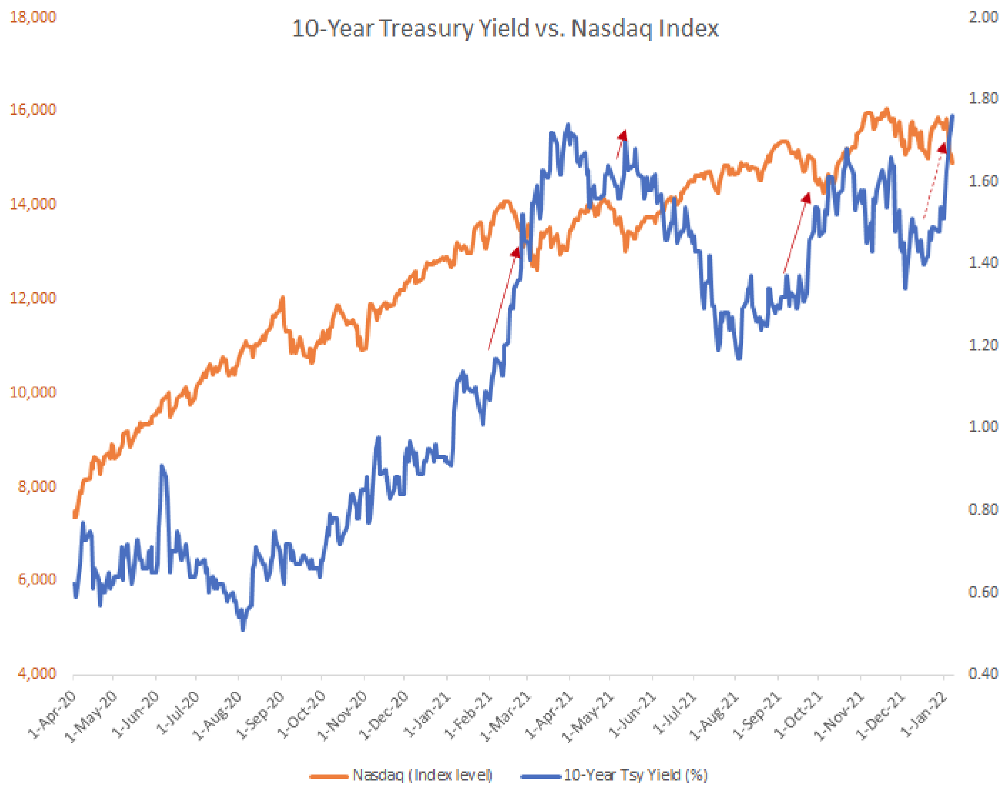
Source: Edward Jones (Public Site)

- The most expensive stocks, as measured by price to sales ratio, significantly underperformed year-to-date, partially due to the rise in interest rates. Per Barrons as of last Thursday, 38% of the NASDAQ stocks fell 50% or more from their 52-week highs.



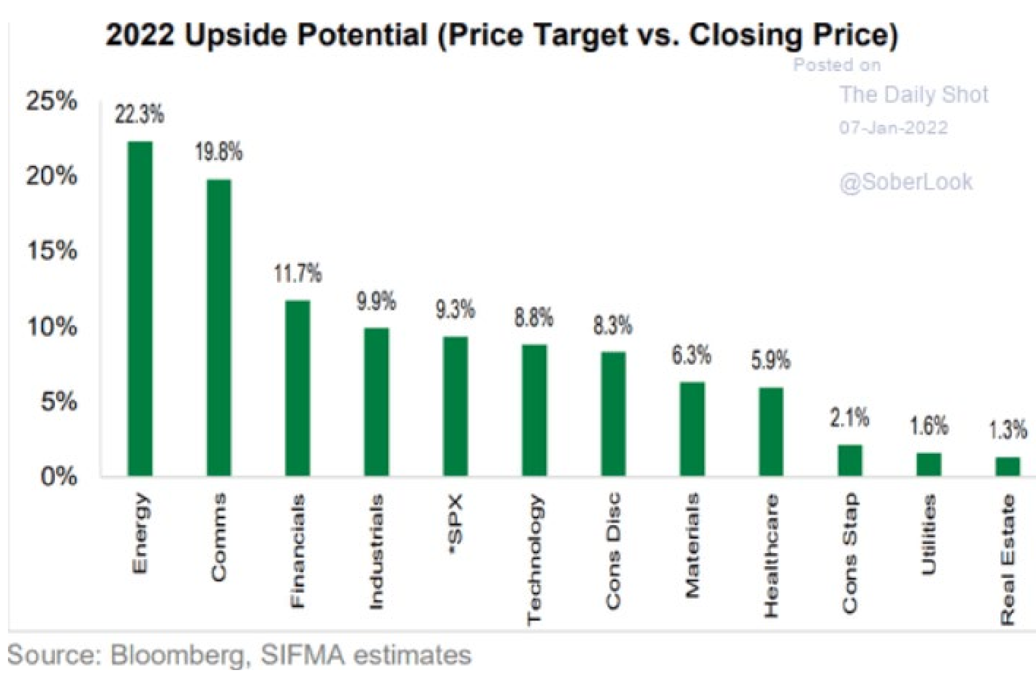
Source: Bespoke

- The chart below shows that historically as yields rise, the Nasdaq and growth sectors tend to decline.



Source: Edward Jones (Publice Site)

- The chart below shows the sectors with the most upside potential based on analysts' price targets.



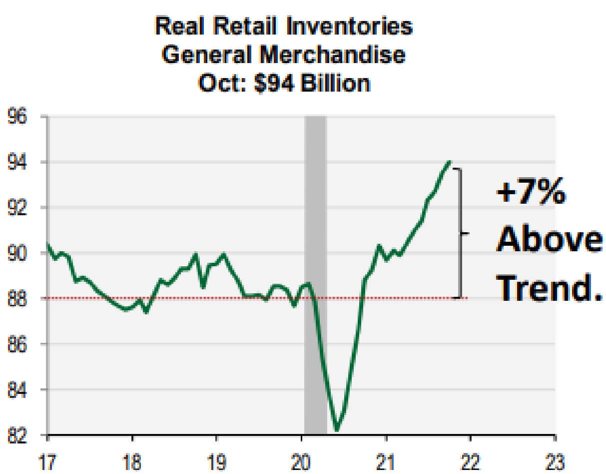
Source: The Daily Shot

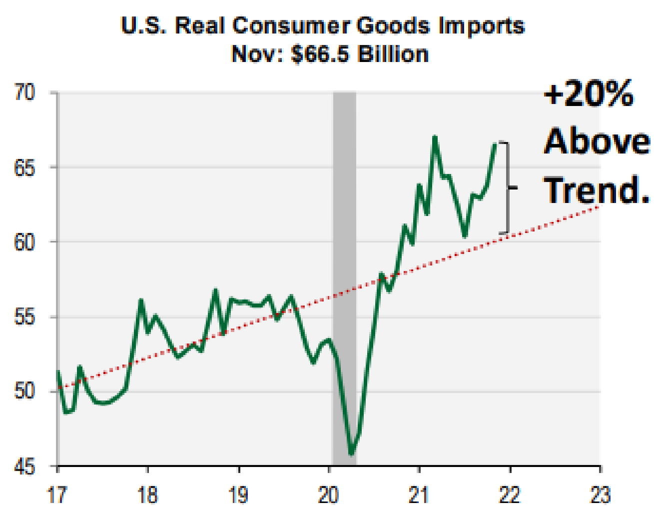
Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Please reference important disclosures on page 8.

- Insider buyers peaked in March 2020, and have dropped since, a phenomenon that also occurred after the market low in 2009.

Source: Strategas

- If retail inventories and consumer imports continue to increase, will inflation data begin to normalize as inventories pile up and retailers potentially mark down merchandise prices/values?

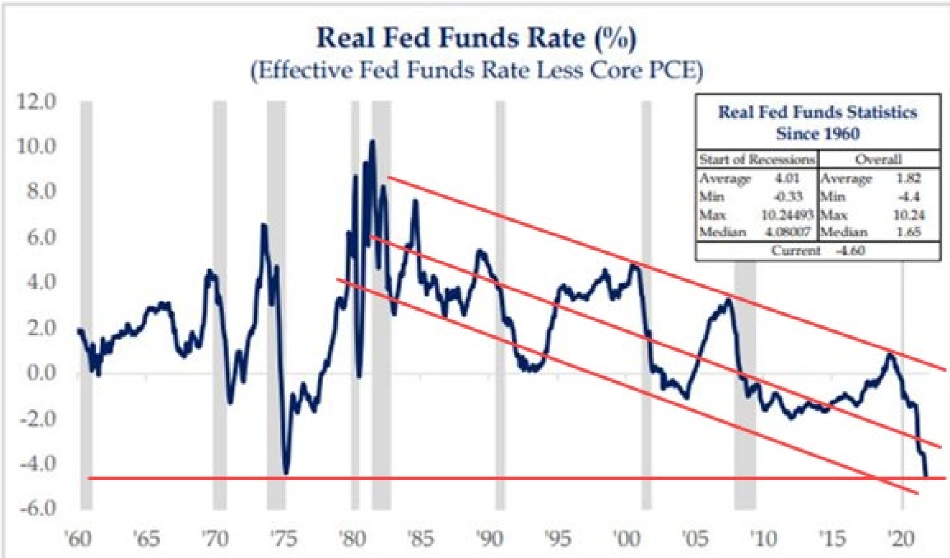




Source: Cornerstone Macro

Fixed Income Markets

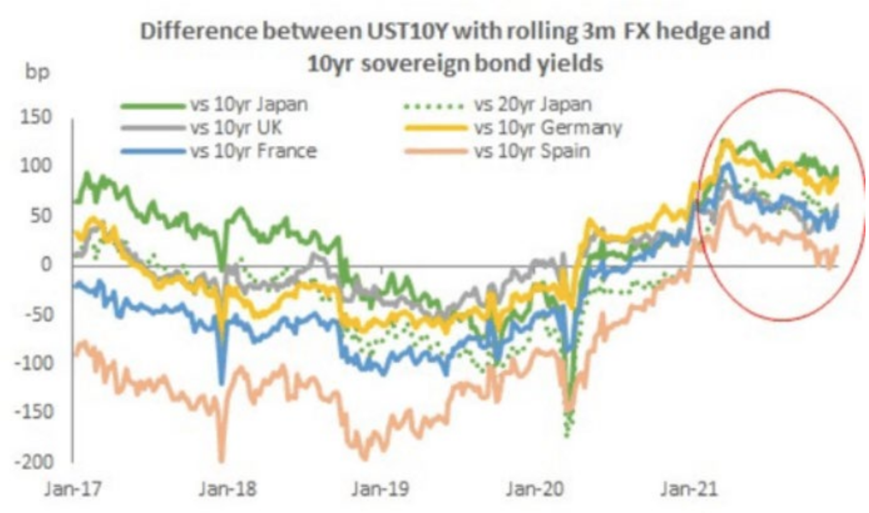
- The Federal Reserve (Fed) is likely accelerating the reduction in quantitative easing due to the negative real rates of U.S. Treasuries as inflation not only surprised to the upside, but appears to be less "transitory" than the Fed originally thought.



Source: Strategas

- Even after hedging costs, many foreign investors can still earn higher yields by investing in U.S. Treasuries. Will this foreign demand potentially put a lid on U.S. yields?

Figure 19: 10yr Treasury yields with FX hedge have fallen slightly but are still above most government bond yields



Source : Bloomberg Finance LP, Deutsche Bank

Source: The Daily Shot

U.S. Economic and Political News

- The December Federal Open Market Committee (FOMC) minutes pointed out that participants generally noted that given their outlooks for the economy, labor market and inflation, it may become warranted to raise the funds rate sooner, or at a faster pace, than earlier anticipated. Participants also discussed how the current outlook was much stronger, with higher inflation and a tighter labor market, than at the beginning of the previous economic normalization cycles.
  - The minutes noted that some participants said it could be appropriate to start runoff "relatively soon after beginning to raise the federal funds rate," and many participants saw the appropriate pace of balance sheet runoff as likely faster than last cycle.
  - The probability of a rate hike in March rocketed to 76%, from just 26% a month ago.
- ISM manufacturing fell to 58.7 in December from 61.1 in November, below the 60.0 consensus, and the lowest since January 2021. However, details were generally positive as new orders remained above 60.0, employment improved, supplier deliveries fell and prices paid declined sharply to the lowest level since November 2020.
  - ISM services fell to 62.0 from 69.1, below the 67.0 consensus and the sharpest decline since April 2020, but economists noted the reading remained elevated following the record November print. That said, unlike the manufacturing survey, details were weaker and there was no reprieve on the inflation front.
- The week ended with a 199K increase in December nonfarm payrolls, which was below the 400K+ consensus and even higher whisper numbers, but the report still played into the tight labor market theme.
  - There were upward revisions to prior months, average hourly earnings surprised to the upside, increasing 0.6% month-over-month and the unemployment rate fell 0.3pp to 3.9%, just below the Fed's long-run estimate, reflecting a ~650K increase in household employment.

International Markets and News

- The Chinese stock market (Shanghai Composite) fell 1.7% along with global markets, as the world's most indebted property developer (China Evergrande) said it would seek approval for a payment delay on one of its yuan-denominated bonds at a meeting with creditors over the weekend.
  - China continued to lock down the city of Xi'an and re-imposed travel restrictions in Shenzhen after two infections were detected in the southern tech hub.
  - Caixin Manufacturing purchasing managers index (PMI) rose to a higher-than-expected 50.9 in December, up from 49.9 in November.
- European markets (STOXX 600 Index) fell 0.3%, as core Eurozone bond yields rose with U.S. Treasury yields, and Europe posted record levels of COVID-19 infections.
  - December inflation data for the Eurozone accelerated to 5% year-over-year from 4.9% in November.
  - IHS Markit's Composite PMI for December fell to 53.3 from 55.4 in November, likely due to the resurgent in COVID-19 impacting the service sector and business activity.
- Japanese equities (Nikkei 225 Index) fell 1.1%, as the government announced that three prefectures would be place under quasi-states of emergency due to surging COVID-19 cases, and brought back restrictions for the first time since September 2021.

This Week:

- Corporate earnings reports will be light this week, with notable company reports include, but are not limited to: Fast Retailing, Lennar, Delta Air Lines, JPMorgan Chase, Wells Fargo, BlackRock, Citigroup, National Commercial Bank, Albertsons, ABC-MART, KB Home, and Tilray.
- U.S. Economic data:
  - Monday: Limited Economic Data
  - Tuesday: NFIB Small Business Index
  - Wednesday: MBA Mortgage Purchase Applications, CPI ex Food, Energy, CPI, Treasury Budget
  - Thursday: PPI ex Food, Energy, PPI
  - Friday: Export Prices, Import Prices, Retail Sales ex Autos, Retail Sales, Capacity Utilization, Industrial Production, Business Inventories, Michigan Consumer Sentiment (Preliminary)

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

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The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

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