Weekly Market Recap

January 18, 2022

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	4,663	-0.3%	-2.2%
Dow Jones Industrial Average	35,912	-0.9%	-1.2%
NASDAQ	14,894	-0.3%	-4.8%
Russell 2000® Index	2,163	-0.8%	-3.7%
MSCI EAFE Index	2,330	0.2%	0.1%
10-yr Treasury Yield	1.78%	0.0%	0.2%
Oil WTI ($/bbl)	$84.25	6.8%	12.0%
Bonds*	$112.17	-0.3%	-1.1%

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

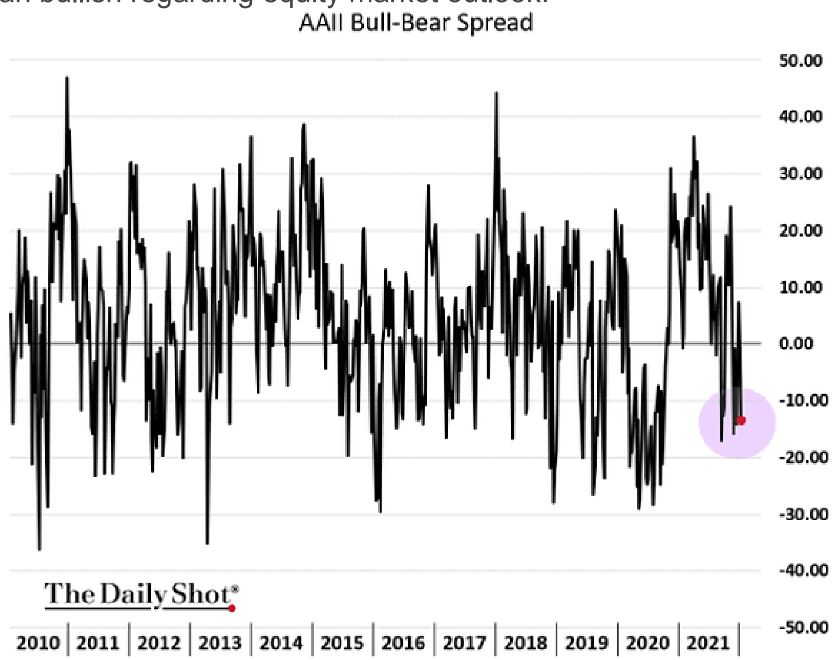
Last Week:

U.S. Equity Market

- U.S. large cap equities (S&P 500 Index) fell -0.3%, as the ten-year Treasury yield volatility led to continued volatility for equities. Headline Consumer Price Index (CPI) was up 7.0% year-over-year (y/y), the fastest pace since June 1982, and slightly ahead of expectations, leading to market expectations for a potential interest rates lift off in March, and possibly four rate hikes this year. Q4 earnings season started on Friday, with higher expenses emerging as a key theme in reports from several big banks. Overall, the S&P 500 Index is expected to see Q4 earnings growth of ~22% y/y, and revenue growth of 13% y/y. However, analysts expect companies to discuss challenges with supply chain constraints, inflation pressures, and Omicron headwinds. The dollar index fell, gold was up 1.1%, and West Texas Intermediate (WTI) crude oil rose +6.8%.
- S&P 500 Index Sector Returns (Price Return):
    - Energy (+5.2%) rallied, as the price of WTI oil increased +6.8%.
    - Communication services (+0.5%) rose, led by **Alphabet** (+1.8%) and media.
    - Technology (-0.1%) was flat, with strength from semiconductor stocks, offset by software.
    - Health care (-0.3%) outperformed, led by managed care and hospitals.
    - Materials (-0.6%) fell, led lower by industrial metals.
    - Industrials (-0.6%) fell, led lower by road/rail and airlines.
    - Financials (-0.8%) fell, led lower by investment banks on earnings.
    - Consumer discretionary (-1.5%) underperformed, with weakness from Tesla, home retailers, restaurants, apparel and retailers.
    - Consumer staples (-0.4%), utilities (-1.4%), and REITs (-2%) underperformed, as investors favored less defensive stocks.

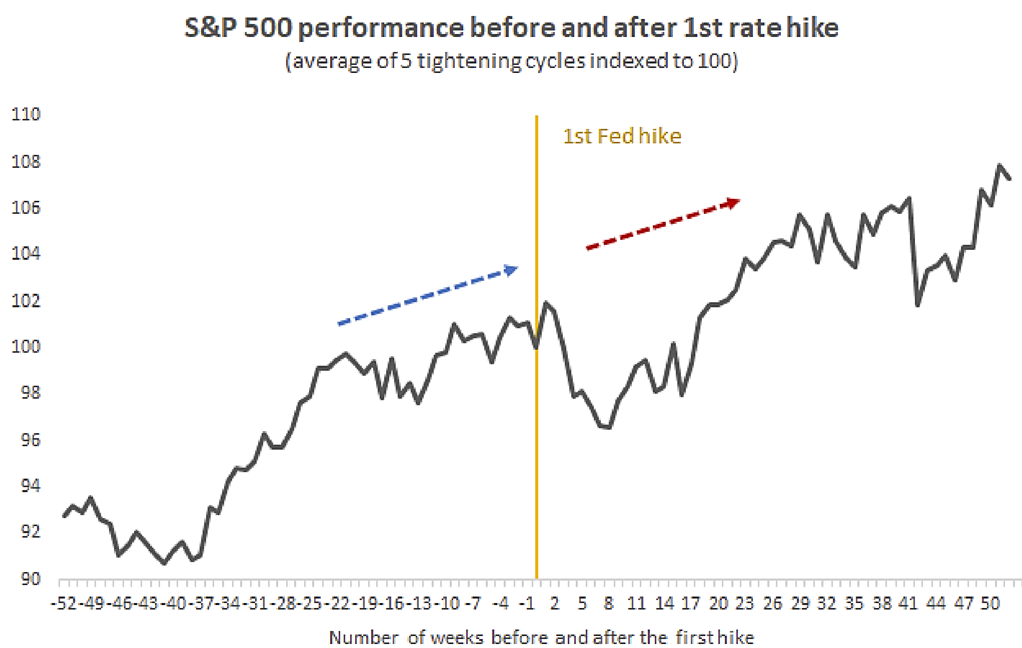
Please reference important disclosures on page 8.

- Equity market sentiment is shifting to more neutral levels as volatility increases, inflation remains elevated, and the Federal Reserve (Fed) appears to be accelerating the pace of potential rate hikes. An AAII (American Association of Individual Investors) bull-bear spread below zero implies investors are more bearish than bullish regarding equity market outlook.



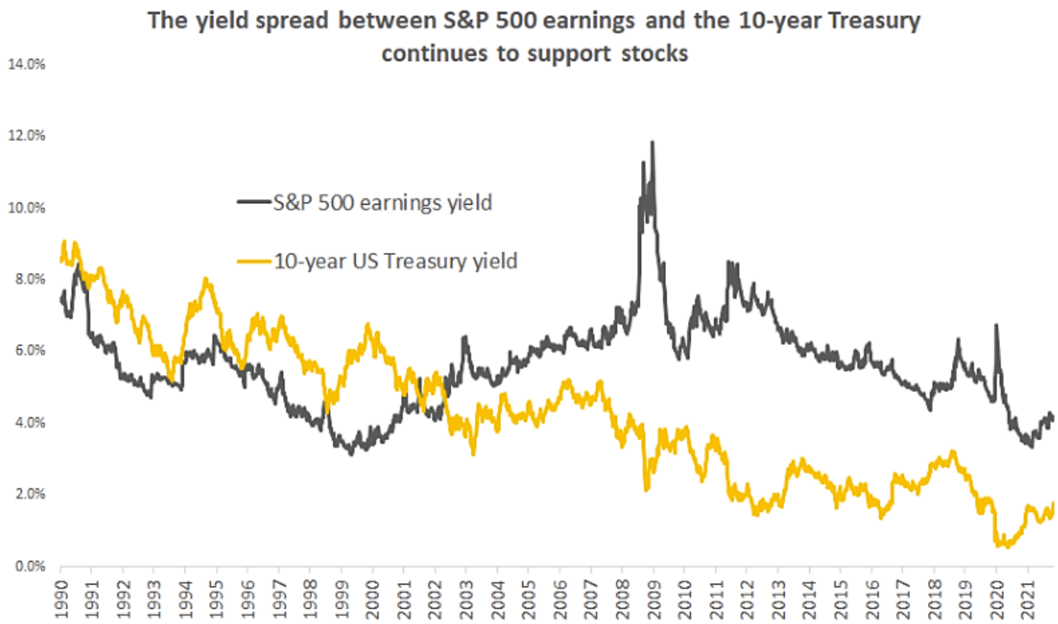
Source: The Daily Shot

- Historically, equities tend to experience modest volatility near the first interest rate hike. However, they generally continue their upward trajectory from the year before the first rate hike through the twelve months after the first rate hike. Equity returns tend to be challenged toward the tail end of the cycle when the yield curve inverts.



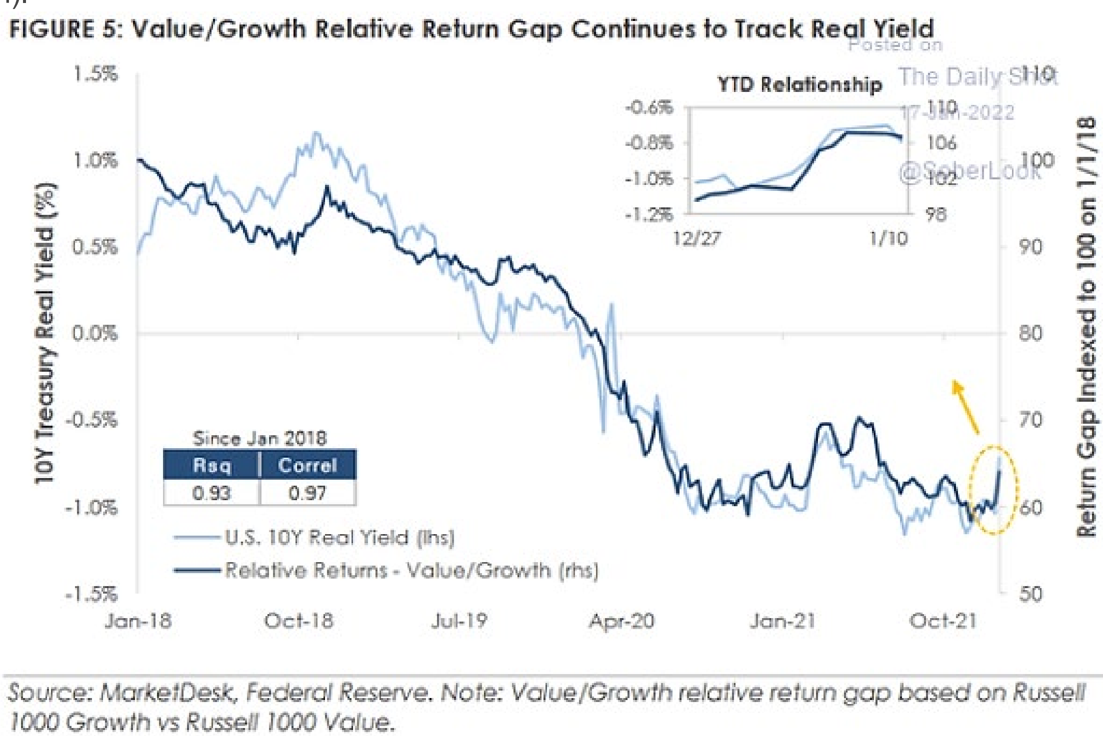
Source: Edward Jones (Publice Site)

- The chart below suggests the yield spread between the S&P 500 earnings and the ten-year Treasury remains positive for equities.



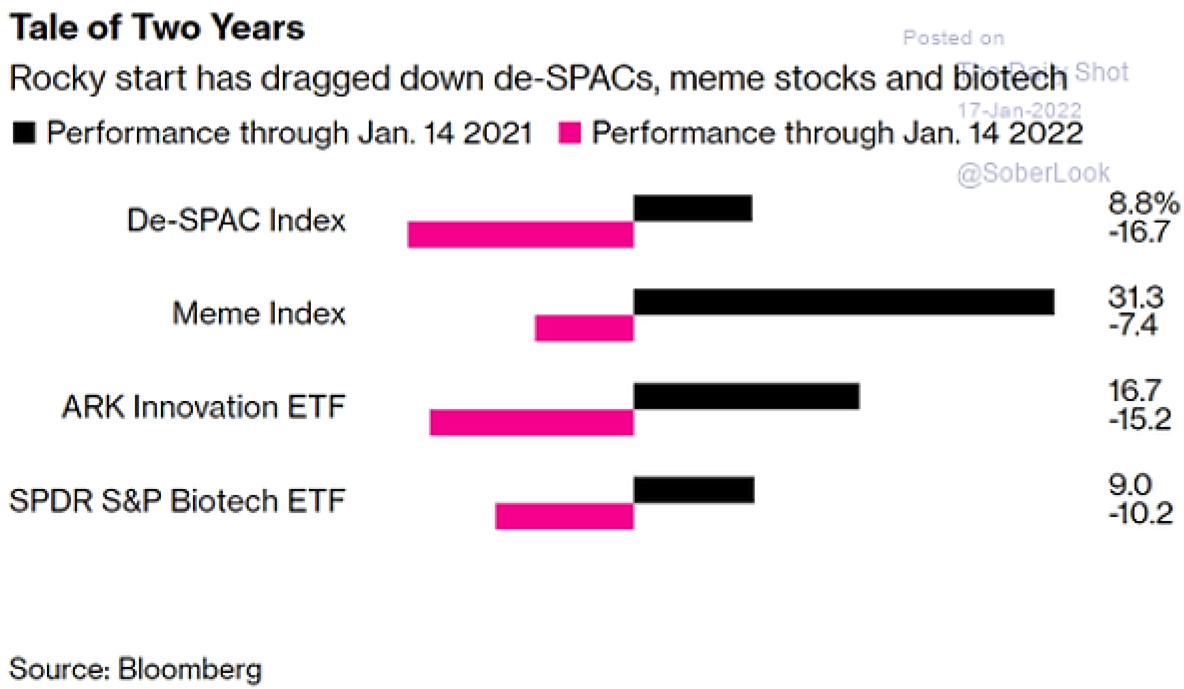
Source: Edward Jones (Publice Site)

- The chart below shows that value/growth relative returns continue to follow real yields (yields minus inflation).



Source: The Daily Shot

- Special purpose acquisition companies (SPACs), meme stocks, and more speculative equities significantly underperformed thus far in 2022, a reversal to the start of 2021.



Source: The Daily Shot

- The price of nickel rallied recently, as demand for nickel grows with the demand for electric vehicles and their batteries, while supply is shrinking.

Source: Bloomberg

Fixed Income Markets

- The Fed is now expected to raise interest rates four times in 2022, which is a significant increase from the October 2021 expectations of only one hike this year.

Source: Edward Jones (Publice Site)

- An Evercore ISI survey suggests that Bond Managers have been reducing their portfolio duration as interest rates increased along with inflation expectations.

Left Y-axis is Bond Manager Portfolio Duration relative to their benchmarks (100% = identical duration as benchmark). Right Y-axis is ten-year Yield invested.Source: The Daily Shot

U.S. Economic and Political News

- Headline December CPI was up 7.0% y/y, the fastest pace since June 1982, with the 0.5% month-over-month increase faster than the 0.4% analyst expectations. However, there was also a bit of deceleration in shelter prices and lower food costs. Analysts did not see anything likely to alter the Fed's policy path.
- The December Producer Price Index (PPI) was a bit softer than expected (though core prices rose in line with analyst's expectations). Services prices were generally higher, while goods prices fell for the first time since April 2020.
- Initial jobless claims rose to 230K from 207K, but continuing claims dropped to 1559K from 1760K.
- December retail sales posted a big miss, falling 1.9% month-over-month against forecasts for a flat reading. However, this nominally disappointing result was not significantly surprising given the experience of holiday sales pulling forward into October and November.
- St. Louis Fed President Bullard (voter) said he sees four interest rate increases as the most likely scenario, while Governor Waller (voter) told Bloomberg three hikes is a "good baseline," but he could see the possibility for four or even five hikes.
  - Philadelphia Fed's Harker (non-voter) said four hikes is not out of the question if inflation does not moderate, while even the more dovish San Francisco Fed President Daly (non-voter) said liftoff could begin in March of this year.
- The Senate Banking Committee held nomination hearings this week for Fed Chair Powell's second term and Fed Governor Brainard's planned elevation to Vice Chair. Both highlighted the stress from persistent inflation.
  - There remained a mix of opinion about when runoff from the Fed's balance sheet would commence, with more dovish members looking to square away rate liftoff first.

International Markets and News

- The Chinese stock market (Shanghai Composite) fell 1.6%, as the world's most indebted property developer (China Evergrande) secured a crucial approval from onshore bondholders to delay payments on one of its bonds.
  - Credit rating agencies Moody's and S&P downgraded their ratings on Shimao Group (another Chinese property developer), and withdrew those ratings at the company's request.
  - Consumer and producer price inflation slowed more than expected in December, while new bank lending fell more than expected, raising expectations that China may lower both interest rates and possibly the required reserve ratio for banks.
- European markets (STOXX 600 Index) fell 1% along with global markets, partially offset by several European countries reducing COVID-19 restrictions.
  - Germany's economy expanded 2.7% in 2021 after contracting 4.6% in 2020.
  - The U.K. economy grew 0.9% sequentially in November 2021, beating expectations for 0.4% growth.
  - Industrial output in the Euro Area surged 2.3% sequentially in November, which was well above forecast for 0.5%.
- Japanese equities (Nikkei 225 Index) fell 1.2% in sympathy with global markets, and Japanese government extension of the ban on non-resident foreigners entering Japan until the end of February.
  - The Bank of Japan's January Regional Economic Report showed that all regional economies are picking up or shown signs of a pickup.

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This Week:

- Corporate earnings reports will be light this week with notable company reports include, but are not limited to: **UnitedHealth**, Bank of America, Procter & Gamble, ASML, Netflix, Reliance Industries, Morgan Stanley, **Charles Schwab**, Union Pacific, **Goldman Sachs**, Prologis, Intuitive Surgical, PNC Financial Services, US Bancorp, CSX Corp., Schlumberger, Bank of New York Mellon, Markit, Kinder Morgan, Travelers, State Street, Discover Financial Services, Fifth Third Bancorp, Fastenal, UltraTech Cement, **Northern Trust**, Huntington Bancshares, KeyCorp, Region Financial Corp., Citizens Financial Group, Baker Hughes, M&T Bank, Signature Bank, Ally Financial, United Airlines Holdings, Comerica, American Airlines, Alcoa Corp, and First Horizon National Corp.
- U.S. Economic data:
  - Tuesday: Housing Starts, Empire Manufacturing, NAHB Housing Market Index, TIC Flows
  - Wednesday: MBA Mortgage Purchase Applications, Building Permits, Housing Starts, Core Inflation (m/m), CPI (m/m), Wholesale Inventories, Wholesale Trade
  - Thursday: Philadelphia Fed Index, Existing Home Sales
  - Friday: Retail sales (m/m), Retail Sales ex-Autos, Leading Indicators

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

Whitney Stewart, CFA®
Executive Director

Griffith Jones, Jr.
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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