

# WeeklyMarket Update



## General Market News

- The U.S. Treasury curve saw further flattening last week, increasing on the short end of the curve and remaining relatively flat on the longer end of the curve. The 2- and 10-year U.S. Treasury yields increased 38 and 7 basis points (bps), respectively, while the 30-year U.S. Treasury yields decreased 3 bps. With the most recent inflation numbers coming in higher than anticipated, investors are still navigating the uncertainty of possible interest rate paths moving forward.
- Markets were mixed last week. Growth sectors such as technology, communication services, and consumer discretionary stocks sold off sharply. Value sectors such as energy, materials, and financials fared better, which is a theme for 2022 thus far. Thursday's hotter-than-expected January Consumer Price Index (CPI) report indicated a 0.6 percent month-over-month increase and saw bond rates move higher. The Federal Reserve (Fed) will need to act to reel in inflation, which is at a level we have not seen since 1982. Inflation continues to be broadly based with all items, excluding food and energy, and increasing by 6 percent year-over-year. It's not a surprise that energy continues to perform well as the CPI report indicated a 27 percent year-over-year increase. It remains to be seen to what extent this base effect will cool inflation and the action the Fed will take at its March meeting.
- On Tuesday, the December international trade balance report was released, showing that the trade deficit increased less than expected. The deficit increased from a downwardly revised \$79.3 billion in November to \$80.7 billion against calls for a further increase to \$83 billion. Imports rose 1.6 percent, which was more than enough to offset the 1.5 percent increase in exports. This capped a year with historically large monthly international trade deficits, fueled by high domestic demand for goods and an uneven global economic recovery. In fact, the annual deficit of \$859.1 billion was the largest on record, surpassing the previous mark of \$763.5 billion in 2006. Looking ahead, diminishing global medical risks are expected to support a return to more normal international trade levels, but it will likely take time before the monthly trade deficit is closer to historically normal levels.
- Thursday saw the release of the Consumer Price Index report for January. Headline consumer prices increased 0.6 percent for the month and 7.5 percent year-over-year. Headline price growth was higher than economist forecasts, which called for a 0.4 percent monthly and 7.3 percent annual increase. Core consumer prices also increased more than expected. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.6 percent and 6 percent year-over-year. The larger-than-expected increases caused year-over-year consumer inflation to reach its highest level since 1982. Inflationary pressure was widespread, with rising prices for services, goods, food, and energy contributing to the increase in overall inflation. Looking ahead, the Fed is expected to focus on combating inflation in 2022 as it tries to support its dual mandate of maximum employment and stable prices.
- Finally, we finished the week with Friday's release of the preliminary estimate for the University of Michigan consumer sentiment survey for February. This widely monitored measure of consumer confidence declined more than expected, dropping from 67.2 in January to 61.7 against calls for a more modest drop to 67. This

**General Market News (continued)**

brought the index to its lowest level since 2011 and signaled continuing consumer concern about the state of the economy. Consumer views on current economic conditions and future expectations soured to start the month, which was

disappointing but understandable given continued concerns about inflation. Historically, higher levels of confidence have helped support faster spending growth, so this weak result may be a challenging sign for spending growth during the month.

## Market Index Performance Data

**EQUITIES**

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	-1.79	-2.09	-7.16	13.87
Nasdaq Composite	-2.17	-3.12	-11.80	-1.53
DJIA	-0.96	-1.07	-4.28	12.40
MSCI EAFE	1.42	2.58	-2.38	4.66
MSCI Emerging Markets	1.60	2.70	0.75	-11.36
Russell 2000	1.42	0.13	-9.51	-10.44

Source: Bloomberg, as of 2/4/22

**FIXED INCOME**

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	-1.32	-3.45	-3.75
U.S. Treasury	-1.21	-3.08	-3.66
U.S. Mortgages	-1.31	-2.77	-3.69
Municipal Bond	-0.44	-3.16	-2.68

Source: Morningstar Direct, as of 2/4/22



## What to Look Forward To

---

Tuesday will see the release of the Producer Price Index for January. Producer prices are expected to increase 0.5 percent, from a 0.3 percent increase in December. On a year-over-year basis, however, producer inflation is set to decline from 9.7 percent in December to 9 percent in January. Core producer prices, which strip out food and energy prices, are set to increase 0.4 percent during the month and 7.9 percent on a year-over-year basis. Producer prices also faced notable inflationary pressure throughout much of 2021, driven by tangled global supply chains and rising material and labor costs. While inflationary pressure remains, we may have reached a peak for year-over-year producer when it hit 9.8 percent in November of 2021. If estimates hold, this would be a sign that inflationary pressure is starting to soften, as it would signal two consecutive months with lowered year-over-year producer inflation.

On Wednesday, the January retail sales report is set to be released. Retail sales are forecasted to rebound to start the new year following declines at year-end. Headline retail sales are set to increase 1.8 percent in January after falling 1.9 percent in December of 2021. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to increase 0.9 percent following a 2.5 percent decline in December. The drop in sales in December was the result of rising medical risks and supply disruptions, and a quick rebound in January would be an encouraging sign that consumer demand remains robust despite these headwinds. Looking forward, further improvements on the medical front are expected to help support further spending growth in the months ahead, which would be a good sign for the pace of overall economic recovery.

Wednesday will also see the release of the January industrial production report. Industrial production is set to increase 0.4 percent during the month

following a 0.1 percent decline in December. The anticipated rebound in production to start the year is due to declining medical risks and plant reopenings. December's decline in production was due, in large part, to plant shutdowns related to the Omicron variant, and these headwinds are expected to decline in January. Capacity utilization is expected to increase from 76.5 percent in December to 76.8 percent in January, which would mark the highest utilization rate since late 2019. Manufacturing output is also expected to rebound in January, as manufacturing production is set to rise 0.3 percent following a 0.3 percent decline in December. If estimates hold, this report is expected to show an encouraging return to growth for the manufacturing industry, which would help calm fears of a potential manufacturing slowdown to start the year.

The third major release on Wednesday will be the National Association of Home Builders Housing Market Index data for February. This widely monitored measure of home builder confidence is set to remain unchanged at 83. This is a diffusion index, where values above 50 indicate growth. So, if estimates hold, this would be a strong result signaling further construction growth. Home builder confidence rebounded swiftly once initial lockdowns ended in spring 2020, and the index has remained well above pre-pandemic levels. Record-low mortgage rates, a low supply of existing homes for sale, and shifting home buyer preferences for more space due to the pandemic have all supported home builder sentiment and new home construction. Looking forward, high levels of home builder confidence are expected to support continued construction growth in the months ahead.

The fourth and final major release on Wednesday will be the FOMC meeting minutes from the January Fed meeting. The Fed did not make any changes to interest rates at this meeting; however, the post-meeting press release and comments from Fed

### What to Look Forward To (continued)

Chairman Jerome Powell at his post-meeting press conference indicated that the Fed is likely to start raising rates at its next meeting in March. The Fed is also expected to shift its primary focus from supportive monetary policy aimed at getting folks back to work to combating inflation through tighter policy in 2022. While the anticipated rate hikes would be a sign that the Fed views the economy as strong enough to withstand less supportive monetary policy, tightening this policy could lead to market volatility. Investors and economists will closely analyze the minutes from this meeting for any hints about the Fed's upcoming plans and how the central bank views the current state of the economy.

We'll finish the week with Friday's release of the January existing home sales report. Existing home sales are expected to fall 1.3 percent during the

month following a 4.6 percent decline in December. Despite the drop in December and the anticipated decline in January, the pace of existing home sales is expected to remain well above pre-pandemic levels. While sales have cooled compared to the surge in late 2020, the fact that sales remain above pre-pandemic levels highlights the continued level of home buyer demand we've seen since the start of the pandemic. Looking forward, a lack of available homes for sale, rising prices, and higher mortgage rates are all expected to serve as headwinds for significantly faster sales growth. If we continue to see sales remain near current levels, it would be a sign of a healthy housing market.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev. 02/22.

Authored by the Investment Research team at Commonwealth Financial Network®

© 2022 Commonwealth Financial Network®