March 14, 2021

Weekly Viewpoint

Fed Set for Rate Liftoff

Performance for Week Ending 3.11.2022

The Dow Jones Industrial Average (Dow) finished down 1.99%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) lost 2.83%, the Standard & Poor's 500 Index (S&P 500) dipped 2.88% and the Nasdaq Composite Index (NASDAQ) slumped 3.53%. Sector breadth was negative with 10 of the S&P sector groups closing lower. The Consumer Staples sector (-5.78%) led the decline followed by Technology (-3.81%) and Communication Services (-3.14%). The Energy sector was the sole winner, gaining 1.89%.

Index*	Closing Price 3/11/2022	Percentage Change for Week Ending 3/11/2022	Year-to-Date Percentage Change Through 3/11/2022
Dow	32944.19	-1.99%	-9.34%
Wilshire 5000	42305.63	-2.83%	-12.70%
S&P 500	4204.31	-2.88%	-11.79%
Nasdaq	12843.81	-3.53%	-17.90%

Market Observations: 3/7/22–3/11/22

The S&P 500 finished lower for a second consecutive week as uncertainty surrounding the crisis in Ukraine, a surge in consumer inflation, and worries over the path of monetary policy kept investors tethered to the sidelines. After spiking to over $130 per barrel early in the week, WTI oil settled at $109.33 per barrel. The rise in crude has pressured gasoline prices higher with American Automobile Association (AAA) reporting that the average price of regular unleaded hit $4.33 per gallon as of Friday – a new record. According to a new survey from AAA, it finds that two-thirds of Americans felt gas prices were too expensive just a few weeks ago at $3.53 per gallon. Now with the national average at an all-time high of over $4, Americans may have reached a tipping point. Over half (59%) said they would make changes to their driving habits or lifestyle if the cost of gas rose to $4 per gallon. If gas were to reach $5.00, which it has in the Western part of the country, three-quarters said they would need to adjust their lifestyle to offset the spike at the pump.

Inflation Hurting Sentiment: Underscoring that the rise in gasoline and jump in overall prices has weighed on the consumer, the University of Michigan's Consumer Sentiment Index tumbled last week to its lowest since 2011, when the debt ceiling crisis and the impact of Hurricane Irene battered confidence, and at a level which has rarely been seen outside of recessions. The report also showed year-ahead inflation expectations rose to a four-decade high. However, inflation expectations over the next five to 10 years held at 3%.That may offer some assurance to the Federal Reserve, who's trying to keep long-term inflation expectations from spiraling out of control. The central bank is likely to raise interest rates this week, marking its first hike since 2018.

CPI Report: The Consumer Price Index (CPI) rose 0.8% in February, and was up 7.9% over a year earlier, the highest 12-month level since 1982. Excluding volatile food and energy — so-called core inflation — the numbers were still high, at 0.5% for the month and 6.4% year-over-year. The steepest price gains were for gasoline (+6.6%) and fuel oil (+7.7%). But there were price surges for many non-energy items as well, including air fare (+5.2%) and fruits and vegetables (+2.3%). The new numbers include precious few signs of inflation abating — and mostly don't reflect the impact of the Ukraine war on global commodity prices. It appears highly likely that the March CPI report will show inflation running at over an 8% rate.

Tale of Two Halves? While the near-term out for the markets will be clouded by the 'fog of war," history tells us that geopolitical crisis tend to be short lived and rarely lead to a recession. As we move ahead, we believe that fundamentals will ultimately outweigh fear. The US economy remains in good shape and it is generally isolated from any fallout in the Russian economy. Hard data reports (Payrolls, Durable Goods Orders, Retail Sales, Industrial Production) have been very strong relative to the survey and sentiment data (which are likely being impacted by inflation worries). Consumer balance sheets are strong and savings rates are still elevated by over $2 Trillion. Money market mutual have over $4.6 trillion in cash and corporate buyback activity has been very strong. Covid cases have plunged and many areas around the country are dropping Covid related mandates. Supply chain issues are starting to ease. Importantly, the earnings environment remains solid with high single digit growth expect this year and next. If there has been a silver lining to the recent market weakness, It's been that valuation levels have moved lower with the S&P selling for just over 17x the 2023 estimate and 15.7x the 2024 estimates.

The Week Ahead: The focal point of the week will be the two day Federal Open Market Committee on Tuesday and Wednesday where the central bank is expected to raise rates for the first time since December 2018. Market expectations are for a quarter point move, in line with the recent rhetoric from Fed Chair Powell. An updated Summary of Economic Projections (SEP) will also be released which will serve as a rough blueprint for the path ahead. The highlight of the data calendar will be the release of the February Retail Sales data on Wednesday. The report will give us a gauge on how consumer spending is faring in light of surging prices. Other reports of interest include; the NY Fed Manufacturing Index for March, the February Producer Price Index, Housing Starts during February, Existing Home Sales during February, and the February Leading Index of Economic Indicators report. Only two Fed Heads are scheduled to speak this week, both on Friday. Richmond Fed President Thomas Barkin will speak at the Maryland Bankers Association First Friday Economic Outlook Forum while Fed Governor Michelle Bowman will take part in a virtual Fed listens event on Helping Youth Thrive.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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