February 7, 2021

Weekly Viewpoint

Cleared for Liftoff

Performance for Week Ending 2.4.2022

The Dow Jones Industrial Average (Dow) finished up 1.05%, the Wilshire 5000 Total Market Index^{SM} (Wilshire 5000^{SM}) added 1.90%, the Standard & Poor's 500 Index (S&P 500) gained 1.55% and the Nasdaq Composite Index (NASDAQ) jumped 2.38%. Sector breadth was positive with 8 of the 11 S&P sector groups closing higher. The Energy sector (+4.94%) was the best performer followed by Consumer Discretionary (+3.94%) and Financials (+3.51%). On the downside Communication Services, Real Estate and materials all closed fractionally lower.

Index*	Closing Price 2/4/2022	Percentage Change for Week Ending 2/4/2022	Year-to-Date Percentage Change Through 2/4/2022
Dow	5089.74	+1.05%	-3.44%
Wilshire 5000	45244.28	+1.90%	-6.64%
S&P 500	4500.53	+1.55%	-5.57%
Nasdaq	14098.01	+2.38%	-9.89%

Market Observations: 1/31/22–2/4/22

The major market indices finished higher for a second straight week. Trading was very volatile over the fice day period as investors tried to balance mixed earnings from the mega-cap tech space, geopolitical tensions, rate hike worries and stronger than expected job growth during January.

Payrolls – Strong to Quite Strong: Following the much weaker than expected ADP Employment Change report on Wednesday, where private payrolls fell by over 300K, expectations heading into the Payroll report on Friday were very low with several economists looking for a contraction. The potential for a weak payrolls report, largely because of virus-related disruptions, was well telegraphed in the days ahead of the report, including by White House and Federal Reserve officials. Instead, January payrolls surged by 467K while the prior two months of data were revised up by an additional 709K jobs. The unemployment rate ticked up to 4.0% from 3.9% but that was a result of a large influx of people entering the workforce looking for a job. Meanwhile, average hourly earnings rose 0.7% in January and 5.7% from a year ago, further fanning concerns about the persistence of inflation. In addition to the jobs numbers, the Federal Reserve is likely monitoring the strength in oil prices, which have moved above $90 per barrel, the highest level since September 2014. The surge in crude prices is also filtering down to gasoline where the national average of regular unleaded hit a $3.42 per gallon, the highest level in over seven years.

Fed Cleared for Liftoff: While it's all but a done deal that the Fed will hike rates at next month's FOMC meeting, the jobs report furthered fueled expectations that the Fed could unleash a half percent rate hike at the meeting. Fed officials have recently tried to tamp down expectations of a 50 basis point hike, although they have also reminded investors that all decisions will be data dependent. The jobs report coupled with this week's report on consumer inflation, which is expected to rise to the highest level in 40 years, certainly raise the odds of a more aggressive response. According to Bloomberg's World Interest Rate Probability tool, the market is fully pricing in 5 rate increases over the course of this year.

Q4 EPS Season: Despite some high profile earnings misses, overall fourth quarter earnings season continues to trend at a better than forecast pace. Through Friday, 278 members of the S&P 500 have released results with 76% surprising to the upside. Aggregate earnings growth is up 27.1% on a year-over-year basis, solidly ahead of the 19.5% pace that analysts were forecast at the start of the year. On the sector level, all eleven of the S&P sector groups have delivered positive growth with the strongest gains coming from cyclical sectors like Energy, Industrials and Materials.

Outlook – Glass Still Half Full: Despite the rocky start to the new year our positive view on the equity market remains intact. While volatility is likely to remain elevated and the pace of gains are likely to slow in the year ahead, we feel the macro environment will remain supportive and should continue to provide a sturdy backbone for additional upside. The US economy remains on firm footing and growth in the quarters ahead is expected to remain above trend. The US consumer is in good shape and savings rates remain above pre-pandemic levels, suggesting that as consumers become more comfortable with the economic recovery, pent up demand will be unleashed. Earnings expectations also suggest solid forward growth. Based on consensus expectations from Bloomberg, earnings are forecast to grow by just over 7 percent this year followed by 10 percent growth in 2023.

The Week Ahead: The focal point of the data calendar will be Thursday's release of the Consumer Price Index (CPI) which will be the first of two inflation prints ahead of the Fed's next meeting in March, at which they are widely expected to raise interest rates for the first time since 2018. According to Bloomberg, the January CPI report is expected to show prices rising at a 7.3% year-over-year pace, the highest level in 40 years. Other data points of interest include; December wholesale inventories, weekly jobless claims, and the February consumer sentiment data from the University of Michigan. Fourth quarter earnings season will remain on the front burner with 80 members of the S&P 500 expected to release results. The Fed speaking calendar will be limited again this week with only three appearances on the docket.

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 Index℠ 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.