April 4, 2021

Weekly Viewpoint

S&P Posts Third Straight Weekly Gain

Performance for Week Ending 4.1.2022

The Dow Jones Industrial Average (Dow) finished down 0.12%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) added 0.25%, the Standard & Poor's 500 Index (S&P 500) gained 0.06% and the Nasdaq Composite Index (NASDAQ) tacked on 0.65%. Sector breadth was mixed with 6 of the S&P sector groups closing higher and 5 closing lower. The Real Estate sector (+4.43%) led on the upside followed by Utilities (+3.71%) and Consumer Staples (+2.33%). On the downside, the Financials sector (-3.28%) was the worst performer.

Index*	Closing Price 4/1/2022	Percentage Change for Week Ending 4/1/2022	Year-to-Date Percentage Change Through 4/1/2022
Dow	34818.27	-0.12%	-4.18%
Wilshire 5000	45805.43	+0.25%	-5.48%
S&P 500	4545.86	+0.06%	-4.62%
Nasdaq	14261.50	+0.65%	-8.84%

Market Observations: 3/28/22 – 4/1/22

The major market indices finished the week little changed as the continued uncertainty from the war in Ukraine, elevated inflation, and tighter policy from the Federal Reserve kept many investors tethered to the sidelines. Oil prices retreated by over 12% reflecting the combination of demand concerns following China's decision to introduce a two-phased, nine-day lock-down in Shanghai, one of its most populated cities, as part of an effort to control the ongoing surge in coronavirus infections. The other headwind was President Biden's decision to open up the spigots from the U.S. Strategic Petroleum Reserve (SPR) in an attempt to lower the price of gasoline. Biden authorized the release of 1 million barrels of crude oil per day for the next six months. While the move was seen as a temporary fix, it will likely put downward pressure on prices in the near-term. According to the American Automobile Association (AAA), the price of regular unleaded gasoline at week's end stood at $4.22 per gallon, off its recent peak of $4.33 per gallon.

Labor Market Remains Strong: Last week, the Labor Department reported that nonfarm payrolls in March rose by 431K while the February data was revised to 750K from the initial estimate of 678K. The unemployment rate fell 0.2% to a lower than expected 3.6%, which is only slightly above the pre-pandemic reading of 3.5% in February 2020. Amid extremely tight labor market conditions, average hourly earnings posted an increase of 0.4%, lifting the year-on-year pace to 5.6% from 5.2% in February. The solid gain in payrolls was driven by a further tailwind as Omicron infections faded, with employment in leisure and hospitality rising by 112K, and a strong 49K gain in retail payrolls. Manufacturing employment rose by 38K, with a 6.4K rise in motor vehicle manufacturing employment suggesting semiconductor shortages may be starting to ease. There were little to no signs that the war in Ukraine or the surge in oil prices had put a temporary hold on hiring in any parts of the economy.

The strong gains in wage growth should continue to draw individuals into the labor market, boosting the labor force participation rate. Earlier in the week, the February job openings and labor turnover (JOLTS) report pointed to an very tight labor market with job openings edging to 11.27 million, a level that is 61% above pre-pandemic levels. The number of workers quitting their jobs hit a an elevated 4.4 million workers last month. All in all, these buoyant readings are likely to keep upward pressure on wages in coming months.

Half Point Hike in May? The strong March jobs data reinforces the Federal Reserve's strong determination to rein in inflation, and likely gives it the green light to hike rates by 50 basis points at the May meeting. According to Bloomberg's World Interest Rate Probability tool, the fed funds futures market is now discounting an 80% chance of a half point move. In addition, last week's reading on core personal consumption and expenditures (PCE) – the Fed's preferred inflation barometer – showed inflation rising at a very hot 5.4% year over year pace in February, well above the Fed's 2% target.

Tale of Two Halves? While the near-term out for the markets will remain clouded by the situation in Ukraine, elevated levels of inflation and a hawkish Federal Reserve, we think as we move forward fundamentals will ultimately outweigh near-term fears. The US economy remains in good shape and the probability of a recession in the coming quarters remains low. 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 18x the 2023 estimates and 16.7x the 2024 estimates. While the market is not cheap by historical standards, equities still remain attractive on a relative basis.

The Week Ahead: Monetary policy will remain front and center with investors likely to parse the release of the March FOMC minutes on Wednesday in search of more details on the path of monetary policy going forward. At the press conference following the meeting, Fed Chairman Powell indicated that the minutes would also include details on the discussion over the central bank's balance-sheet reduction plan. The data calendar will be relatively light with the March ISM services index expected to be the focal point. Other reports of interest include the February Factory Orders and weekly jobless claims. The Fed speaking calendar picks up a bit this week with six Fed Heads scheduled to speak. The earnings calendar will remain on the backburner with only 3 members of the S&P 500 scheduled to release results. In sports, the NCAA men's basketball tournament reaches the Final Four, with the final of "March Madness" to be played in New Orleans on Monday. Golf's Masters gets under way in Augusta, Georgia mid-week and Major League baseball will kick off their season on Thursday.

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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