“Soon and Fast”

Performance for Week Ending 1.28.2022

The Dow Jones Industrial Average (Dow) finished up 1.34%, the Wilshire 5000 Total Market Index^{SM} (Wilshire 5000^{SM}) added 0.41%, the Standard & Poor’s 500 Index (S&P 500) gained 0.77% and the Nasdaq Composite Index (NASDAQ) finished little changed. Sector breadth was mixed with five S&P sector groups posting gains and six finishing lower. The Energy sector (+5.01%) was the best performer while the Industrials sector (-1.47%) was the biggest laggard.

Index*	Closing Price 1/28/2022	Percentage Change for Week Ending 1/28/2022	Year-to-Date Percentage Change Through 1/28/2022
Dow	34725.47	+1.34%	-4.44%
Wilshire 5000	44400.43	+0.41%	-8.38%
S&P 500	4431.85	+0.77%	-7.01%
Nasdaq	13770.57	+0.01%	-11.98%

Market Observations: 1/24/22– 1/28/22

The major market indices finished the week higher with the S&P 500 posting its first weekly gain of the year. Trading was very volatile throughout the week reflecting investor concern that interest rate hikes by the Federal Reserve could choke off the economic recovery. Geopolitical tensions between Russia and the West over the Ukraine situation added to the uncertainty.

Powell More Hawkish than Expected: Last week the Federal Reserve hosted its first Federal Open Market Committee (FOMC) meeting of the year. While the release of the after meeting communique contained no real surprises, the more ‘hawkish’ than expected press conference and Q&A session from Fed Chair Powell sent the markets into a tailspin. According to the meeting statement, the Fed will start raising interest rates “soon” and shrink its bond holdings after liftoff has begun, moving toward ending ultra-easy pandemic support to fight the hottest inflation in a generation. “With inflation well above 2% and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate.” In a separate statement, the Fed said it expects the process of balance-sheet reduction “…will commence after the process of increasing the target range for the federal funds rate has begun.” The Fed also reiterated that “Risks to the economic outlook remain, including from new variants of the virus.”

At the after meeting press conference, Fed Chair Powell underscored that the Federal Reserve is committed to ensuring high inflation doesn’t become entrenched, while refusing to rule out a hike every meeting. Powell said the inflation situation is “slightly worse” than it was at the time of the December meeting, adding that he’s inclined to boost his forecast by a “few tenths.” When asked during the Q&A session about whether the Fed may raise rates by a half-percentage-point at once or raise rates at consecutive meetings, he didn’t take either option off the table, and instead responded with a list of reasons why the current economic situation is very different from any previous tightening cycle. Powell's vagueness led to the market drawing its own conclusions resulting in the market now discounting almost five rate hikes this year. According to Bloomberg's World Interest Rate Probability tool, Fed fund futures are now fully discounting rate hikes at the March, June, July and November meetings and a 75% chance of a fifth hike at the December gathering.

Q4 EPS Season – So Far, So Good: With about one-third of the S&P 500 releasing results, fourth quarter earnings season is off to solid start. Through Friday, 169 members of the S&P 500 have released results with 76% surprising to the upside. Aggregate earnings growth is up 29.9% on a year-over-year basis, moderately ahead of the 23.6% pace that analysts are forecasting for the overall quarter. On the sector level, the strongest growth is coming from Materials, Consumer Discretionary, and Healthcare while the Real Estate sector has posted a mild contraction in growth.

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 nearly 8 percent this year followed by 10 percent growth in 2023.

The Week Ahead: The focal event in the week ahead will be the January payroll report on Friday. According to Bloomberg, nonfarm payrolls are expected to expand by 170K and the unemployment rate is expected to come in at 3.9%, unchanged from December. Other data reports of interest include; the ISM Manufacturing Index for January, auto sales during January, December job openings, the ADP Employment change data for January, initial jobless claims, and the January ISM Services Index. It will be another busy week on the earnings front with 105 members of the S&P 500 scheduled to report results. The Fed speaking calendar will be limited with only two 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 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.