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Market Insights - January 7, 2022

MARKETS GET HAMMERED AS WORRIES ABOUT PROFIT MARGINS TAKE CENTER STAGE AND NASDAQ ENTERS CORRECTION TERRITORY

- There is no other way to say it: the markets endured a very, very ugly week
- When the short-trading week concluded, all the major equity indices were down big, with the smaller-cap Russell 2000 giving back 8.1%, NASDAQ tanking 7.6%, the S&P 500 dropping 5.7% and the DJIA slipping 4.6%
- Of the 11 S&P 500 sectors, every one of them declined, with the defensive Utilities sector holding up the best with a loss of 0.8%
- The Consumer Discretionary sector was the worst performer, losing 8.5%, followed by the Communication Services (-7.1%) and Information Technology (-6.9%)
- The main driver to the declines was mostly worries about the Fed's rate-raising plans, but there was other not-so-great economic news too and a few major names (Goldman Sachs and Netflix being two of the bigger ones) that missed earnings
- Netflix was hammered when its earnings were released, dropping about 22% when it said it did not sign up as many subscribers
- The 2-year Treasury yield ended the week at 0.99%, but it was 8 basis points higher earlier in the week and the 10-year Treasury ended the week at 1.75%
- The U.S. Dollar Index rose 0.5% to 95.63
- Oil prices ended the week at $85.16/barrel, an increase of about $1.29

Weekly Market Update – January 21, 2021

	Close	Week	YTD
DJIA	34,265	-4.6%	-5.7%
S&P 500	4,398	-5.7%	-7.7%
NASDAQ	13,769	-7.6%	-12.0%
Russell 2000	1,988	-.8.1%	-11.5%
MSCI EAFE	2,284	-1.5%	-2.2%
Bond Index*	2,306.28	-0.74%	-2.05%
10-Year Treasury	1.77%	0.00%	0.3%

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

Equities Get Hammered as NASDAQ Corrects

On the third week of 2022, equity markets hit levels not seen in some time, and the levels were not good ones either. The S&P 500 saw its biggest decline in about 14 months and NASDAQ saw its biggest decline since the start of the pandemic, ending the week comfortably in correction territory as it is off more than 10% since its recent highs.

Rising interest rate fears and future growth prospects seemed to worry Wall Street and every day seemed to be worse than the previous – and there were only 4 trading days because markets were closed Monday in observance of the Martin Luther King, Jr., holiday.

Declines were everywhere, as all of the S&P 500 sectors ended the week in the red. And there was a lot of negative news from big household names too – including JP Morgan Chase, Goldman Sachs, Netflix, and Peloton.

In US economic news:

- December housing starts jumped 1.4% to a 1.702 million annual rate compared to 1.678 million units in November, exceeding expectations
- Initial jobless claims unexpectedly jumped, rising 55,000 to 286,000 in the week ended January 15, the highest level since October 16, 2021.
- The general business conditions index in the Philadelphia Fed's manufacturing business outlook survey rose to 23.2 in January from 15.4 in December
- Sales of existing homes fell 6.0% in December to a 6.10 million annual rate after a revised 6.49 million units in November

Confidence from Home Builders Drops

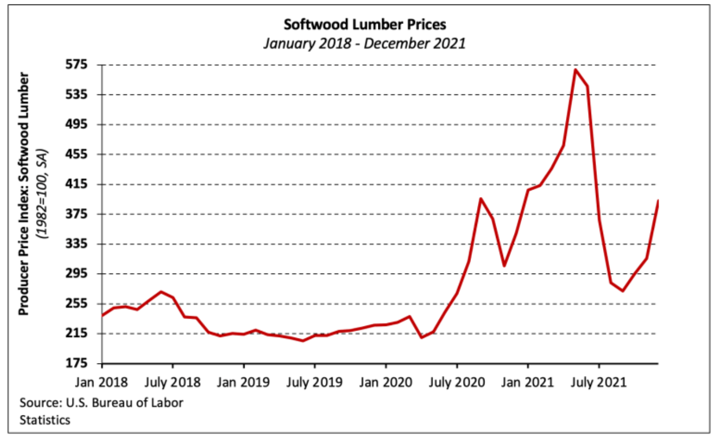
According to the latest from the National Association of Home Builders: "Growing inflation concerns and ongoing supply chain disruptions snapped a four-month rise in home builder sentiment even as consumer demand remains robust."

Further:

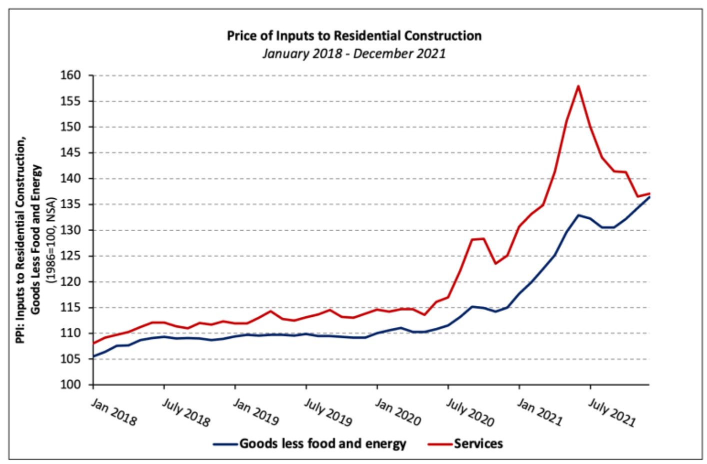
- Builder confidence in the market for newly built single-family homes moved one point lower to 83 in January.

- The HMI has hovered at the 83 or 84 level, the same rate as the spring of 2021, for the past three months.

"Higher material costs and lack of availability are adding weeks to typical single-family construction times," said NAHB Chairman Chuck Fowke. "NAHB analysis indicates the aggregate cost of residential construction materials has increased almost 19% since December 2021. Policymakers need to take action to fix supply chains. Obtaining a new softwood lumber agreement with Canada and reducing tariffs is an excellent place to start."



"The HMI data was collected during the first two weeks of January and do not fully reflect the recent jump in mortgage interest rates," said NAHB Chief Economist Robert Dietz. "While lean existing home inventory and solid buyer demand are supporting the need for new construction, the combination of ongoing increases for building materials, worsening skilled labor shortages and higher mortgage rates point to declines for housing affordability in 2022."



"The HMI index gauging current sales conditions held steady at 90, the gauge measuring sales expectations in the next six months fell two points to 83, and the component charting traffic of prospective buyers also posted a two-point decline to 69.

Looking at the three-month moving averages for regional HMI scores:

- The Northeast fell one point to 73;
- The Midwest increased one point to 75; and
- The South and West each posted a one-point rise to 88, respectively.

Jobless Claims Jump

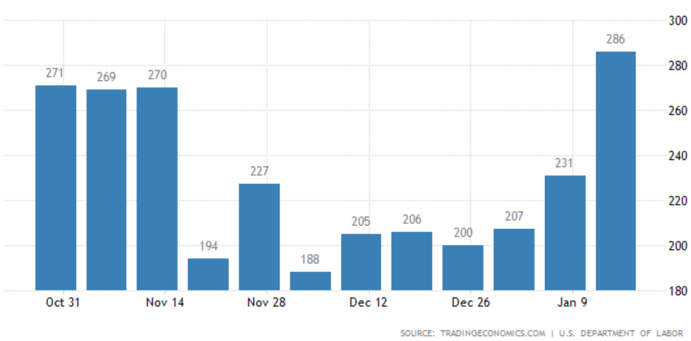
On Thursday, the Department of Labor announced that for the week ending January 15, the advance figure for seasonally adjusted initial claims was 286,000, an increase of 55,000 from the previous week's revised level.

Further:

- The 4-week moving average was 231,000, an increase of 20,000 from the previous week's revised average.

- The advance seasonally adjusted insured unemployment rate was 1.2 percent for the week ending January 8, an increase of 0.1 percentage point from the previous week's unrevised rate.

- The 4-week moving average was 1,664,250, a decrease of 55,250 from the previous week's revised average. This is the lowest level for this average since April 27, 2019 when it was 1,663,500.



Sources: nahbnow.com; bls.gov; dol.gov; cmegroup.com; msci.com; fidelity.com;nasdaq.com; wsj.com; morningstar.com