



WEEKLY MARKET UPDATE, FEBRUARY 22, 2022

GENERAL MARKET NEWS

• The U.S. Treasury curve saw yields decline modestly on the short end and remained mostly flat on the longer end last week. The 2- and 5-year U.S. Treasury yields were down 11 basis points (bps), ending the week at 1.47 percent and 1.84 percent, respectively. The 10- and 30-year U.S. Treasury yields were down 7 bps (to 1.96 percent) and 1 bp (to 2.3 percent), respectively. On Monday, Federal Reserve (Fed) Governor Michelle Bowman expressed an open mind around the idea of a 50-bps hike. There are still numerous senior Fed officials, however, who are signaling opposition to a half-percentage-point increase. Investors will be on the lookout for more clues and clearer sentiment as the March 15–16 meeting inches closer.

• U.S. and developed international markets sold off last week as geopolitical tensions and the case for higher rates continued. The week began with a hotter-than-expected Producer Price Index report on Tuesday, followed by a strong January retail sales report on Wednesday. Also released on Wednesday was the Federal Open Market Committee (FOMC) meeting minutes, which indicated a dovish tone (although the meeting was held prior to the more recent inflationary, retail spending, and employment data). Consumer staples and materials were the top-performing sectors

while energy, communications services, and financials were among the worst performers. Tensions between NATO members and Russia rose over the build-up of Russian troops on the Ukrainian border. There was some hope as Biden agreed to a French-brokered summit with Russian President Vladimir Putin and investors preferred to take a risk-off trade approach.

• On Tuesday, the Producer Price Index for January was released. Producer prices increased more than expected, with headline producer prices increasing 1 percent against calls for a 0.5 percent increase. On a year-over-year basis, producer prices rose 9.7 percent in January, down modestly from the 9.8 percent year-over-year inflation from December but higher than economist estimates for a 9.1 percent annual growth rate. Core producer prices, which strip out the impact of volatile food and energy prices, increased 0.8 percent during the month and 8.3 percent year-over-year, once again beating economist estimates. Producer prices faced notable inflationary pressure throughout much of 2021, driven by tangled global supply chains and rising material and labor costs, and this report shows that these inflationary pressures remained to start the new year.

• On Wednesday, the January retail sales report was released. Retail sales rebounded

more than expected to start the year after a drop in sales in December. The report showed that retail sales increased 3.8 percent, which was better than economist estimates for a 2 percent increase. This marks the best month for retail sales growth since March 2021, when an infusion of federal stimulus checks spurred a surge in spending. This encouraging result, following a downwardly revised 2.5 percent decline in sales in December, indicates that the slowdown in sales at year-end was likely a temporary lull caused by rising medical risks. Given the swift return to sales growth in January, this report served as an encouraging sign that the economic impact from the Omicron variant was relatively benign compared with earlier Covid-19 waves. Looking ahead, continued improvements on the medical front may support spending growth in the months ahead, which would be a good sign for the pace of the overall recovery.

· Wednesday saw the release of the January industrial production report. Industrial production increased 1.4 percent, which was higher than economist estimates for a 0.5 percent increase. This strong result was supported by a surge in heating demand during the month, which caused utilities output to increase nearly 10 percent. Improving public health and reopened factories also supported the increase in production, as capacity utilization increased from 76.6 percent in December to 77.6 percent in January against calls for a more modest increase to 76.8 percent. This brought utilization to its highest level since early 2019, which is another encouraging sign that the economic impact from the Omicron variant was muted compared with earlier waves. Manufacturing output increased 0.2 percent, which was in line with expectations. Overall, this report showed a solid rebound for production to start the new year.

· The third major data release on Wednesday was the release of the National Association of Home Builders Housing Market Index for February. This widely monitored measure of home builder confidence declined slightly, dropping from 83 in January to 82. This was in line with economist estimates and still signals relatively high levels of home builder confidence. This is a diffusion index, where values above 50 indicate growth, so this result still signals continued new home construction ahead. Home builder confidence and new home construction rebounded swiftly following the expiration of initial lockdowns and have remained in expansionary territory since, supported by high levels of home buyer demand and low supply of homes available for sale. The drop in home builder confidence was partially due to a drop in the measure of prospective home buyer foot traffic, which could be a sign that rising home prices and mortgage rates are starting to serve as a headwind for future sales growth.

· The final major release on Wednesday was the release of the FOMC meeting minutes from the January Fed meeting. The Fed did not make any changes to interest rates at this meeting, but economists were still interested in seeing the minutes due to the expectation that the Fed would start hiking interest rates at its next meeting in March. The minutes showed consensus among Fed members that the economic recovery has reached a point where it will soon be appropriate to start tightening monetary policy in earnest. The Fed's bond purchase program is set to expire in March, and the central bank is widely expected to increase the federal funds rate by at least 25 basis points at its mid-March meeting. The minutes also showed that some Fed members believed the central bank could start to shrink its balance sheet later in the year, which would be another step toward normalizing monetary policy. Although the anticipated tightening actions from

the Fed would be a welcome sign that the central bank views the economy as largely healthy, any changes to monetary policy could lead to market volatility and should be monitored.

• We finished the week with Friday's release of the January existing home sales report. Existing home sales surged past expectations, with sales increasing 6.7 percent against calls for a 1.3 percent decline. Although part of this increase was due to a downward revision to the December sales level, this better-than-expected result brought the pace of existing home sales to a one-year high. The gains were widespread, with all three geographical regions seeing faster growth during the month, but a lack of supply likely held back faster sales growth. The supply of homes available for sale declined 2.3 percent, which brought year-over-year supply down 16.5 percent. The surge in existing home sales is yet another signal that the economic recovery continued at pace to start the year. With that being said, some of the better-than-expected growth was likely due to prospective home buyers scrambling to purchase ahead of potentially rising mortgage rates. Looking ahead, the low supply of homes for sale, rising prices, and rising mortgage rates are expected to serve as headwinds for faster sales growth.

WHAT TO LOOK FORWARD TO

On Tuesday, the Conference Board Consumer Confidence survey for February was released. This widely followed measure of consumer confidence declined by slightly less than expected during the month. The report showed that the index fell from 113.8 in January to 110.5 in February against calls for a drop to 110. This marks two consecutive months with declining consumer confidence; however, the index is still well above the pandemic-era low of 85.7 that we saw during initial

lockdowns. The current decline is largely due to continued consumer concern about high levels of inflation, as well as lowered consumer expectations for future economic growth and increased consumer inflation expectations. Historically, improving confidence has helped support faster consumer spending growth, so this will continue to be a closely monitored report.

Speaking of consumer spending, on Friday, the January personal income and personal spending reports are set to be released. Personal spending is set to increase 1.4 percent during the month, which would echo the rebound in retail sales growth that we saw to start the year. Personal spending declined 0.6 percent in December, so any improvement in January would be an encouraging sign that consumer demand and spending rebounded swiftly to start the new year after the December lull. Personal income has been volatile throughout the course of the pandemic, as shifting federal stimulus and unemployment payments have caused large monthly swings in average income levels. Economists expect to see personal income decline 0.3 percent to start the year, following a 0.3 percent increase in December. The anticipated decline in personal income to start the year is due to the expiration of monthly child tax credits at the end of 2021; however, looking forward, the tight labor market is expected to support rising incomes.

We'll finish the week with the release of the preliminary estimate of the January durable goods orders report on Friday. Headline orders are expected to increase 1 percent during the month, following a 0.7 percent decline in December. The anticipated increase in January is due, in part, to a rebound in volatile aircraft orders. With that being said, core durable goods orders, which strip out the impact of transportation orders, are expected to increase 0.3 percent in January after rising 0.6 percent in December. Core durable goods

orders are often viewed as a proxy for business investment; if estimates hold, this would mark 11 consecutive months with rising core orders. Business confidence and spending were strong throughout most of 2021, and the anticipated continued expansion in January would be a sign that business momentum from 2021 carried over into the new year despite headwinds created by the Omicron variant and persistent inflationary pressure.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-1.52%	-3.58%	-8.57%	12.90%
Nasdaq Composite	-1.73%	-4.79%	-13.32%	-1.72%
DJIA	-1.77%	-2.82%	-5.97%	10.24%
MSCI EAFE	-1.86%	0.67%	-4.20%	2.43%
MSCI Emerging Markets	-0.67%	2.00%	0.07%	-12.04%
Russell 2000	-1.00%	-0.87%	-10.42%	-10.46%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-1.56%	-3.68%	-3.43%
U.S. Treasury	-1.15%	-3.03%	-2.89%
U.S. Mortgages	-1.42%	-2.89%	-3.61%
Municipal Bond	-0.61%	-3.33%	-2.10%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed

securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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