WEEKLY MARKET UPDATE, FEBRUARY 7, 2022

GENERAL MARKET NEWS

- The U.S. Treasury yield curve shifted higher last week as economic data moved upward. Friday's January employment report showed a rise in nonfarm payrolls of 467,000 versus an average economist expectation of 51,000. In addition, November and December payroll numbers were revised to an additional 398,000 and 311,000, respectively. This report came following a warning of potential softness from the White House. As a result, yields moved higher across the curve. The report indicates that the economy is perhaps stronger than initially expected. While the January report commonly has noise related to seasonal effects, it will be important to see if this employment strength continues into February. The 2-, 10-, and 30-year U.S. Treasury yields increased 15.9, 15.2, and 13.8 basis points (bps), respectively.

- Markets moved higher despite a volatile week of trading at the company level. The mega-cap names, Alphabet (Google), Meta Platforms (Facebook), and Amazon, all reported mixed results this week. The first of the three was Alphabet (Google), which beat revenue and earnings. The company also announced a 20-to-1 stock split that would make its stock more accessible to smaller investors. Shares of Alphabet were up more than 7.3 percent. Wednesday saw the release of Meta Platforms earnings, which slightly outperformed its revenue target but missed on earnings; however, the larger story, which drove a sell-off of more than 21 percent, was twofold. The first major point was the company acknowledging its advertising challenges with Apple's new iOS phone privacy settings. The second was a longer-than-projected timeline for profitability, as the company pivots toward developing its Metaverse business. Additional concerns included the first sequential drop in active users quarter-over-quarter and competition from TikTok.

- Amazon beat earnings, supported by a beat on cloud revenue and its stake in the EV truck startup Rivian. The company also announced it would increase the price of Prime membership to $139 per year. (The stock was up more than 9.4 percent.) Other notable stocks for the week included PayPal and Snapchat. PayPal was hurt by softer-than-expected revenue guidance, and the stock sold off by more than 22 percent. Snapchat posted its first quarter of positive earnings and demonstrated that it wasn't hindered by the Apple privacy changes—the stock rose more than 50 percent following the news.

- On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for January was released. This measure of manufacturer confidence declined less than expected. The index fell from an upwardly revised 58.8 in December to 57.6 against calls for a further decline to 57.5. This is a diffusion index, where values above 50 indicate growth, so the report showed continued expansion for the manufacturing sector to start the year despite the decline for the index. The continued spread of Omicron contributed to the drop in manufacturing confidence we saw in January; however, the lack of widespread shutdowns meant that sentiment still supported healthy levels of growth. Manufacturing confidence and output were strong throughout 2021, and the fact that the industry continued to grow to start the new year is an encouraging sign. Continued high levels of demand are expected to support further growth in the months ahead, especially now that medical risks from Omicron appear to be declining.

• Thursday saw the release of the ISM Services index for January. Service sector confidence also declined less than expected. The index fell from an upwardly revised 62.3 in December to 59.9 against calls for a further decline to 59.5. This is another diffusion index, where values above 50 indicate growth, so the report showed continued service sector expansion, which is a good sign for overall economic growth to start the year given the fact that the service sector accounts for the majority of economic activity in the country. While we've understandably seen business confidence decline throughout the Omicron wave, business sentiment remained well above the pandemic-era lows we saw during initial lockdowns in 2020. These ISM reports illustrate how businesses have continued to successfully adapt to operating during a pandemic, supported by still-strong levels of consumer demand driven by the ongoing economic recovery.

• We finished the week with Friday's release of the January employment report. The report showed that 467,000 jobs were added, well above economist estimates for 125,000 additional jobs. The November and December jobs reports were also revised up by a combined 709,000 jobs. This much-better-than-expected result highlights the continued strength of the ongoing economic recovery and helps calm concerns about a potential Omicron-induced slowdown for the labor market at the end of the year. This report was especially impressive given the continued case growth during the month and indicates that the economy has become more resilient to increased medical risks throughout the pandemic. The unemployment rate increased from 3.9 percent in December to 4 percent in January. This increase was largely due to an increase in labor force participation, which is a good signal that folks are rejoining the job market. This was a very encouraging report because it showed that the economic momentum from last year was able to drive continued growth throughout the worst of the Omicron wave.

WHAT TO LOOK FORWARD TO

On Tuesday, the December international trade balance report is set to be released. The trade deficit is expected to increase from $80.2 billion in November to $83 billion in December. If estimates hold, the monthly trade deficit would be the largest on record, surpassing the previous high point, an $81.3 billion deficit in September 2021. Throughout the pandemic, the trade deficit has increased notably, driven by high consumer demand in the U.S. and continued issues in the global supply chain. The advanced report on the monthly trade of goods showed imports increasing 2 percent in December, an amount that more than offset a 1.4 percent increase in exports. Looking forward, declining medical risks and the global economic recovery should support a return to more historically normal trade levels. Still, it may be some time before we see a meaningful decline in the monthly deficit.

Thursday will see the release of the Consumer Price Index report for January. Headline consumer prices are expected to increase 0.5 percent, in line with December's 0.5 percent rise. On a year-over-year basis, consumer prices are set to rise 7.3 percent in January, up from the 7 percent annual increase in December. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to go up 0.5 percent during the month and 5.9 percent year-over-year. Throughout 2021, we saw a notable increase in inflationary pressure, primarily driven by rising costs for goods, services, and energy. While the Federal Reserve (Fed) spent much of last year downplaying inflation risks, it began addressing rising prices at year-end. Looking forward, the Fed is expected to focus on combating inflation in 2022, looking to support its dual mandate of maximum employment and stable prices.

On Friday, we'll finish the week with the release of the preliminary estimate for the University of Michigan consumer sentiment survey for February. This widely monitored measure of consumer confidence is expected to improve modestly, increasing from 67.2 in January to 67.5. While declining medical risks and better-than-expected hiring in January should support improved sentiment in February, volatile equity markets and continued inflationary pressure will likely serve as headwinds. Historically, higher confidence has supported faster spending growth, so any improvement for the index would be a positive development. Nonetheless, a notable decline in inflationary pressure will likely be needed before the index can return to pandemic-era highs recorded in the first half of 2021.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.57%	–0.31%	–5.47%	17.42%
Nasdaq Composite	2.41%	–0.97%	–9.84%	2.40%
DJIA	1.06%	–0.11%	–3.35%	14.75%
MSCI EAFE	2.10%	1.14%	–3.75%	5.34%
MSCI Emerging Markets	2.53%	1.08%	–0.84%	–10.66%
Russell 2000	1.74%	–1.27%	–10.78%	–9.45%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.92%	–3.05%	–3.48%
U.S. Treasury	–0.90%	–2.78%	–3.51%
U.S. Mortgages	–0.76%	–2.23%	–3.32%
Municipal Bond	0.47%	–2.28%	–1.52%

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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