WEEKLY MARKET UPDATE, JANUARY 24, 2022

GENERAL MARKET NEWS

- U.S. Treasuries underwent a volatile week of trading, as yields opened the week higher and closed with the back end of the curve flatter. The U.S. 2-year Treasury yield opened last Monday at 0.969 percent and reached a high of 1.07 percent on Wednesday before closing the week at 0.993 percent. We saw a similar move in intermediate and long-dated Treasuries, though a more pronounced flattening, from Wednesday through Friday. The 10-year Treasury yield dropped 4.6 basis points (bps) last week, and the 30-year Treasury yield dropped 6.5 bps. All eyes will be on the Federal Reserve (Fed) for indications on adjustments to its asset purchases and rate outlook.

- Markets were rattled by the move higher in Treasury rates following the Martin Luther King Jr. holiday. The 2-year Treasury yield, which affects short-term borrowing, was up 0.13 percent over the course of three trading days. This move led to concerns with growth stocks, as these names typically benefit from lower borrowing rates to fuel their growth. As a result, the technology-oriented Nasdaq Composite sold off 7.55 percent last week. Additionally, lower guidance from the COVID-19 darlings, Netflix (NFLX) and Peloton (PTON), added to the fear. Tesla (TSLA), Meta Platforms (FB), Alphabet (GOOG/GOOGL), and Disney (DIS) were all down more than 6.5 percent. Developed international and emerging markets held up better than their U.S. counterparts, as lower valuations and muted growth expectations shielded these indices from the large drawdowns seen domestically.

- On Tuesday, the National Association of Home Builders Housing Market Index for January was released. The report showed that home builder confidence dropped modestly, with the index falling from 84 in December to 83 in January against calls for no change. This is a diffusion index where values above 50 indicate expansion, so the result continues to point to construction growth. Home builder confidence has remained in solid expansionary territory following the expiration of initial lockdowns in 2020, as high levels of home buyer demand and a lack of homes for sale have helped support faster construction growth. The high levels of home builder confidence are impressive given the headwinds caused by rising material and labor costs for home builders and signal a healthy housing sector to start the new year.

- Speaking of new home construction, Wednesday saw the release of the December building permits and housing starts reports. These measures of new home construction increased more than expected. The reports showed that permits increased 1.4 percent against calls for a 1.7 percent decline, while starts jumped 9.1 percent against forecasts for a 0.8 percent drop. This marks two months in a row where the pace of construction has come in above estimates. While these reports can be quite volatile on a month-to-month basis, construction increased 15.6 percent year-over-year throughout 2021. This highlighted the tailwinds from high levels of home buyer demand and a lack of existing homes for sale. Given the levels of home builder confidence in January, continued high levels of construction are expected in the months ahead, which would be a healthy development for the supply-constrained housing market.

• We finished the week with Thursday's release of the December existing homes sales report. Sales of existing homes fell 4.6 percent during the month against calls for a more modest 0.6 percent decline. November's existing homes sales were revised upward, which helped offset some of the larger-than-expected declines to finish out the year. Despite the drop, home sales showed impressive strength in 2021. There were 6.12 million existing home sales throughout the year, which was the most sales (in a year) since 2005. The decrease in sales in December likely reflected ongoing supply constraints as well as modestly higher mortgage rates. Looking ahead, supply constraints, rising prices, and high mortgage rates may serve as headwinds for notable sales growth; however, sales near current levels in 2022 would still signal a strong housing sector.

WHAT TO LOOK FORWARD TO

Tuesday will see the release of the Conference Board Consumer Confidence Index for January. This measure of consumer confidence is expected to decline slightly to start the new year. Economists anticipate the index will fall from 115.8 in December to 112 in January. If estimates hold, this report would echo the decline in the advance estimate of the University of Michigan consumer sentiment survey for January. The anticipated result is due to continued consumer concerns about inflation, as well as the rise in Omicron case growth. December's consumer inflation reports showed another uptick in consumer prices at year-end. Looking forward, it's possible case growth and inflationary pressure will begin to recede, which could support improvements for consumer confidence and spending. For the time being, however, this monthly report will continue to be widely monitored.

On Wednesday, the Federal Open Market Committee rate decision from the central bank's January meeting will be released. Economists do not expect to see any changes to interest rates. Still, investors will be closely following the Fed's press release, as well as Fed Chairman Jerome Powell's post-meeting press conference, for hints on the path of future policy. In December, the Fed announced it would be decreasing its secondary-market asset purchases at a faster rate than originally anticipated. This signaled the central bank is working to normalize monetary policy sooner rather than later. Given the continued inflationary pressure at year-end, as well as the improvements throughout 2021 to the labor market, the Fed is expected to spend much of 2022 combatting inflation. The central bank aims to promote stable prices while unwinding the fiscal support put in place at the start of the pandemic. These plans are a good sign, as they indicate the Fed's positive outlook on the economy. As changes to monetary policy always have the potential to rattle markets, they should be closely monitored.

Thursday will see the release of the preliminary estimate of December's durable goods orders report. Durable goods orders are expected to drop 0.5 percent, following a 2.6 percent increase in November. The anticipated decline in headline orders is due in large part to a slowdown in volatile aircraft orders to end 2021.

Core durable goods orders, which strip out the impact of transportation orders, are expected to increase 0.4 percent in December. Core durable goods orders are often used as a proxy for business investment, so it's notable that this report could mark 10 consecutive months of growth for this indicator. Business spending was supportive throughout 2021, as business owners scrambled to invest in equipment and labor to meet high levels of consumer demand.

Thursday will also see the release of the advanced estimate of fourth-quarter gross domestic product growth. The economy is expected to show growth at an annualized rate of 5.8 percent during the quarter. That result would be up from the annualized growth rate of 2.3 percent in the third quarter of 2021. If estimates hold, they would demonstrate an impressive rebound for economic growth to finish out the year. The anticipated growth is partially due to expectations for faster personal consumption. Economists expect consumption to increase 3 percent on an annualized basis in the fourth quarter, up from 2 percent annualized growth in the third quarter. Looking forward, the pace of overall economic growth is expected to moderate in 2022. Still, if fourth-quarter estimates prove accurate, the economy would enter the new year on solid footing and with strong momentum.

We'll finish the week with Friday's release of the December personal income and personal spending reports. Mixed results are expected. Personal income is set to increase 0.5 percent, while spending is set to drop 0.5 percent. If estimates hold, this report would break a nine-month streak of personal spending growth. It would echo a decline recorded in the previously released retail sales report for December. According to the retail sales report, consumer spending on goods and services fell during the month. This decline was a slightly disappointing finish to 2021, but it was understandable given consumer concerns about the Omicron wave and inflation. Personal income has been quite volatile throughout the pandemic, as shifting federal support payments led to large swings in monthly income. Looking forward, the expiration of the advance monthly child tax credit payments at the end of 2021 is likely to weigh on personal income growth in January. Nonetheless, a tight labor market could support income improvements throughout 2022.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–5.67%	–7.66%	–7.66%	16.10%
Nasdaq Composite	–7.55%	–11.98%	–11.98%	2.33%
DJIA	–4.55%	–5.63%	–5.63%	12.60%
MSCI EAFE	–2.08%	–2.19%	–2.19%	6.20%
MSCI Emerging Markets	–1.04%	1.03%	1.03%	–8.73%
Russell 2000	–8.07%	–11.44%	–11.44%	–7.43%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–1.77%	–1.77%	–2.56%
U.S. Treasury	–1.54%	–1.54%	–2.84%
U.S. Mortgages	–1.54%	–1.54%	–2.58%
Municipal Bond	–1.38%	–1.38%	–0.13%

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.

Authored by Brad McMillan, CFA®, CAIA, MAI, managing principal, chief investment officer, and Sam Millette, manager, fixed income, at Commonwealth Financial Network®.