WEEKLY MARKET UPDATE, JANUARY 31, 2022

GENERAL MARKET NEWS

- The U.S. Treasury curve continued to flatten last week. Yields on the front end of the curve moved higher as commentary from the Federal Reserve (Fed) members became more hawkish. Raphael Bostic, president of the Federal Reserve Bank of Atlanta, suggested that a rate hike in March was possible and a 50 basis points (bps) hike may be necessary. The U.S. 2-year Treasury yield opened last Monday at 1.016 percent and closed the week at 1.172 percent. This represents an increase of 15.6 bps for the week. The 10-year Treasury yield increased just 0.9 bps last week, and the 30-year Treasury yield increased 0.2 bps. The reaction following Friday's January employment report will be one to watch as the Fed anticipates a March rate hike.

- Markets saw modest reversals in trends from the prior week's sell-off. The positive outlook from the Fed and a stronger-than-expected estimate of fourth-quarter gross domestic product (GDP) growth supported a mild recovery last week. The Dow Jones Industrial Average was the standout of major domestic indices, as Visa (V), American Express (AXP), Apple (AAPL), Microsoft (MSFT), IBM (IBM), and Dow Inc. (DOW) lifted the index higher. Growth outperformed value on the week, despite the jump in short-term yields. Energy, technology, financials, health care, and communication services posted positive returns. The top underperforming sectors included industrials, utilities, consumer discretionary, and materials. The rebound in growth last week comes as both earnings and the Fed aim to provide insight into the economy amidst recent volatility. The moves higher in international markets also saw a reversal with the MSCI Emerging Markets Index and the MSCI EAFE Index each giving up more than 3.6 percent.

- On Tuesday, the Conference Board Consumer Confidence Index for January was released. Confidence fell less than expected, with the index dropping from a downwardly revised 115.2 in December to 113.8 against calls for a further drop to 111.2. This echoed a similar decline we saw in the advance estimate of the University of Michigan consumer sentiment survey for January. This result was due to a drop in future expectations during the month, as consumer views on the present situation improved modestly. January's slowdown in coronavirus case growth likely contributed to the improving present index, while concerns about persistent consumer inflation weighed on future expectations. Looking forward, continued progress on the public health front may support confidence

in February; however, we'll likely need to see slowing inflation figures before the index returns to pre-pandemic levels.

• On Wednesday, the rate decision from the Federal Open Market Committee's January meeting was released. As expected, the Fed did not change interest rates at this meeting. The news release and Chairman Jerome Powell's post-meeting news conference indicated the central bank is likely to increase the federal funds rate at its March meeting. The Fed put a supportive monetary policy in place at the start of the pandemic, and the plan to increase interest rates in March indicates the central bank is aiming to normalize policy sooner rather than later. Given the improvements we've seen in the labor market since initial lockdowns were lifted—and the rise in inflationary pressure that we saw throughout 2021—it's no surprise the Fed is getting serious about raising rates to take some steam out of the economy. Although the anticipated rate increase in March would be a sign the Fed is comfortable with the health of the economy, any potential changes to monetary policy could affect markets and should be closely monitored.

• Thursday saw the release of the preliminary estimate of December's durable goods orders report. Durable goods orders declined 0.9 percent, which was a larger drop than the 0.6 percent decline economists forecasted. That said, November's report was revised from 2.6 percent growth to 3.2 percent growth, which partially explains the larger-than-anticipated decline in headline orders in December. The drop in headline durable goods orders was largely due to a slowdown in volatile aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, increased 0.4 percent, which was slightly higher than estimates for a 0.3 percent increase. These orders are often used as a proxy for business investment, and this solid result marks 10 consecutive months of growth, indicating healthy levels of business spending throughout 2021.

• Thursday also saw the release of the advanced estimate of fourth-quarter GDP growth. The report showed that the economic recovery picked up steam to end the year, growing at an annualized pace of 6.9 percent during the quarter. This was up from the 2.3 percent growth rate in the third quarter and well above economist estimates for 5.5 percent growth. This better-than-expected result marks a notable rebound for the economy, partly driven by improving personal consumption. Personal consumer growth increased at an annualized rate of 3.3 percent during the quarter, up from 2 percent in the third quarter. Business spending also contributed to this result, as a sharp increase in business inventories was the largest single contributor to overall growth. Looking forward, the pace of economic growth is expected to slow in 2022 and 2023; however, as this report showed, the economy entered the new year with plenty of momentum.

• We finished the week with Friday's release of the December personal income and personal spending reports. The reports were mixed, as an increase in personal income during the month contrasted with a drop in spending. Personal income increased 0.3 percent in December, down from the upwardly revised 0.5 percent increase we saw in November. Personal income has been volatile throughout the pandemic, and shifting federal stimulus payments have caused large swings in average income from month to month. Personal spending declined 0.6 percent in December, which aligned with economist estimates. This drop in spending echoed a similar decline in retail sales growth and broke a nine-month streak of increased spending. Rising medical risks and persistent consumer inflation likely dampened sales to finish out the year.

Looking ahead, it's possible that declining medical risks and inflationary pressure will support a return to spending growth; for now, this will be a closely monitored report.

WHAT TO LOOK FORWARD TO

On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for January will be released. This measure of manufacturer confidence is expected to decline slightly from 58.7 in December to 57.6 in January. This is a diffusion index, where values above 50 indicate growth, so the report is set to show expansion for manufacturing despite the anticipated decline. Manufacturing confidence rebounded swiftly following the expiration of initial lockdowns in 2020. Since then, the recovery for manufacturers has been steady. With that said, the pace of recovery has been slower for manufacturers than for consumers, which has contributed to pricing pressure for manufactured goods. Looking forward, high consumer demand is expected to support continued manufacturing growth. In the short term, however, headwinds from tangled global supply chains and rising costs are likely to remain.

On Thursday, the ISM Services index for January will be released. Service sector confidence is also expected to decline modestly, as the index is set to fall from 62 in December to 59.5 in January. This is another diffusion index, where values above 50 indicate expansion, so the expected result would represent continued growth. As was the case with manufacturer confidence, service sector confidence rebounded swiftly following the expiration of initial lockdowns in 2020. The rebound continued in 2021, as the index was buoyed by improving public health measures allowing consumers to go out and spend freely. Historically, high levels of business confidence have supported faster business spending. In 2021, we saw that relationship hold, with business confidence and spending showing notable strength throughout most of the year.

We'll finish the week with Friday's release of the January employment report. Economists expect to see a slowdown in headline job growth. The forecasts are for 175,000 new jobs, compared with the 199,000 jobs added in December. Despite the anticipated drop in hiring, this report would represent 13 consecutive months with job growth if estimates hold. The unemployment rate is expected to remain unchanged at 3.9 percent, matching the pandemic-era low. Fed Chairman Jerome Powell recently declared that the job market remains in very strong shape and is at or near full employment. The expected results for January employment are very encouraging, given the unprecedented headwinds for the labor market created by the pandemic. Looking forward, given the impressive progress we've already made in getting folks back to work, the pace of future gains is likely to be more modest.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.79%	–6.93%	–6.93%	21%
Nasdaq Composite	0.02%	–11.96%	–11.96%	6.04%
DJIA	1.34%	–4.36%	–4.36%	17.97%
MSCI EAFE	–3.61%	–5.73%	–5.73%	6.02%
MSCI Emerging Markets	–4.26%	–3.28%	–3.28%	–8.54%
Russell 2000	–0.97%	–12.30%	–12.30%	–4.13%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–2.13%	–2.13%	–2.94%
U.S. Treasury	–1.82%	–1.82%	–3.17%
U.S. Mortgages	–1.52%	–1.52%	–2.62%
Municipal Bond	–2.70%	–2.70%	–1.85%

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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