Market Insights - February 12, 2022

LARGE CAPS RETREAT AS SMALL- AND MID-CAPS ADVANCE AMIDST 40-YEAR-HIGH INFLATION NUMBERS AND WORRIES OVER UKRAINE

- It was another volatile week on Wall Street, with the larger-cap U.S. indices giving back almost exactly what was gained last week, as the U.S. smaller caps and the developed, international markets stayed in the positive column
- On the week, NASDAQ lost 2.2%, followed by the S&P 500 (-1.8%) and the DJIA (-1.0%) whereas the small-cap Russell 2000 gained 1.4% and the developed international MSCI EAFE gained 1.5%
- Eight of the 11 S&P 500 sectors retreated on the week, with Communication Services (-3.9%), Information Technology (-2.9%), Real Estate (-2.8%), and Consumer Discretionary (-2.3%) losing more than 2% and Energy (+1.8%) and Materials (+1.1%) gaining on the week
- The beginning of the week saw the markets advancing as states across the country began to relax COVID restrictions, but on Thursday, new inflation numbers not seen since 1982 spooked Wall Street, as did worries of a Russian invasion of Ukraine
- The Consumer Price Index moved up 0.6% in January, but it was the one-year number of 7.5% that rattled Wall Street
- By Thursday afternoon, worries of faster and larger rate hikes by the Fed came into play, with the CME FedWatch Tool putting the probability of a 50-basis-point hike in March at 93.8%
- The 2-year Treasury yield was up 20 basis points at 1.52% and the 10-year Treasury yield advanced a few basis points to 1.96%
- The U.S. Dollar Index rose 0.6% to 96.03
- WTI Crude crested $93/barrel, a level not seen in about 7 years

Weekly Market Update – February 11, 2021

	Close	Week	YTD
DJIA	34,738	-1.0%	-4.4%
S&P 500	4,419	-1.8%	-7.3%
NASDAQ	13,791	-2.2%	-11.8%
Russell 2000	2,030	1.4%	-9.6%
MSCI EAFE	2,279	1.5%	-2.4%
Bond Index*	2,259.76	-1.65%	-4.05%
10-Year Treasury	1.96%	0.03%	0.4%

**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*

Large Caps Drop and Small Caps Rise as Volatility Continues

It was another volatile week, especially on Thursday and Friday and the major large-cap U.S. equity indices gave back last week's gains, while the smaller-cap Russell 2000 and MSCI EAFE (developed, international equities) advanced on the week. The themes of the week were twofold: more inflation and worries about a Russian invasion of Ukraine.

On Thursday, the Consumer Price Index was reported and not only was it another monthly gain, but the 1-year inflation number came in at 7.5%, much higher than the expected 7.2%. As such, investors started betting that the Fed would raise rates faster and in larger chunks throughout 2022, with many suggesting that we might see 5 or 6 rate hikes this year alone, including a 50 basis point rate hike in

March. These interest rate worries spooked technology investors, pushing NASDAQ down on the week and still squarely in correction territory as it is off more than 15% from its most recent peak.

The chorus of warnings from U.S. officials and other world leaders that a Russian invasion of Ukraine might be imminent also contributed to a late-week sell-off, helping push the price of oil to levels not seen in almost 7 years.

In other economic news:

- The Mortgage Bankers Association reported that its purchase index fell a steep 10% this week and the refinancing index fell 7.0%

- The NFIB small business optimism index slipped 1.8 points in January to 97.1, below expectations

- The University of Michigan's consumer sentiment for February came in at 61.7, well below expectations and the lowest level since October 2007

- On Tuesday, the Census Bureau reported that the goods and services deficit widened

Inflation Up 7.5% Year-Over-Year

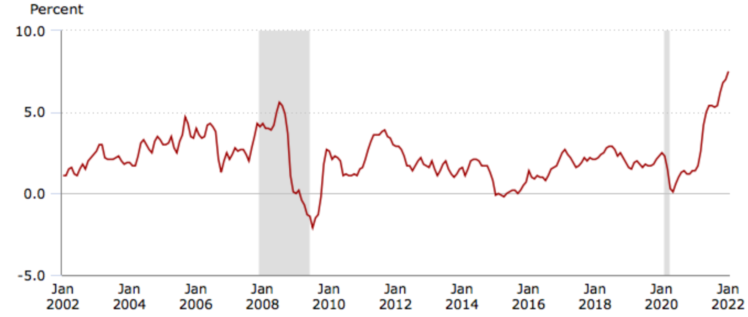
On Thursday, the U.S. Bureau of Labor Statistics reported that the Consumer Price Index for All Urban Consumers increased 0.6% in January and 7.5% over the last 12 months.

- Increases in the indexes for food, electricity, and shelter were the largest contributors to the seasonally adjusted all items increase.

- The food index rose 0.9% in January following a 0.5% increase in December.

- The energy index also increased 0.9% over the month, with an increase in the electricity index being partially offset by declines in the gasoline index and the natural gas index.

12-month Percentage Change in CPI Over the Last 20 Years



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Further:

- This is the largest 12-month increase since the period ending February 1982.

- The all items less food and energy index rose 6.0%, the largest 12-month change since the period ending August 1982.

- The energy index rose 27.0% over the last year.

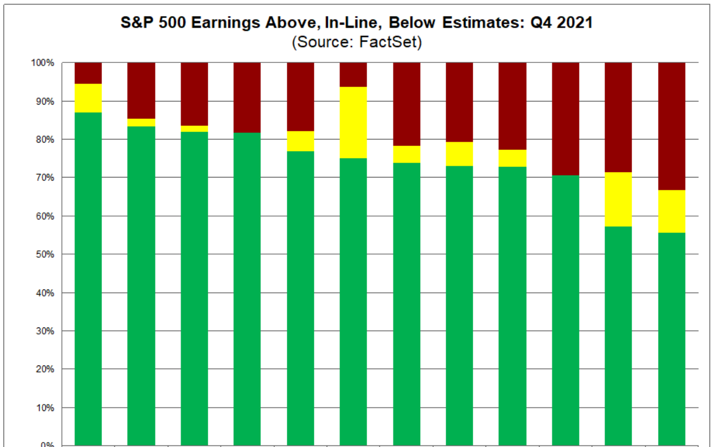
- The food index increased 7.0% over the last year.

Earnings Are Generally Positive

As of Friday's close, the number of companies beating earnings estimates is above the five-year average, and as a result, the index is reporting higher earnings for the fourth quarter today relative to the end of last week and relative to the end of the quarter.

According to research firm FactSet: "the index is reporting earnings growth of more than 30% for the fourth straight quarter and earnings growth of more than 45% for the full year. These above-average growth rates are due to a combination of higher earnings in 2021 and an easier comparison to weaker earnings in 2020 due to the negative impact of COVID-19 on a number of industries."

Further: "Overall, 72% of the companies in the S&P 500 have reported actual results for Q4 2021 to date. Of these companies, 77% have reported actual EPS above estimates, which is above the five-year average of 76%. In aggregate, companies are reporting earnings that are 8.6% above estimates, which is equal to the five-year average of 8.6%."



	Info. Technology	Health Care	Industrials	Energy	S&P 500	Real Estate	Consumer Staples	Financials	Comm. Services	Consumer Disc.	Materials	Utilities
Below	6%	15%	16%	18%	18%	6%	22%	21%	23%	29%	29%	33%
In-Line	7%	2%	2%	0%	5%	19%	4%	6%	5%	0%	14%	11%
Above	87%	83%	82%	82%	77%	75%	74%	73%	73%	71%	57%	56%

Goods and Services Deficit Jumps

On Tuesday, the U.S. Census Bureau and the U.S. Bureau of Economic Analysis announced that the goods and services deficit was $80.7 billion in December, up $1.4 billion from $79.3 billion in November.

Exports, Imports and Balance

- December exports were $228.1 billion, $3.4 billion more than November exports. December imports were $308.9 billion, $4.8 billion more than November imports.

- The December increase in the goods and services deficit reflected an increase in the goods deficit of $3.2 billion to $101.4 billion and an increase in the services surplus of $1.8 billion to $20.7 billion.

- For 2021, the goods and services deficit increased $182.4 billion, or 27.0 percent, from 2020. Exports increased $394.1 billion or 18.5 percent. Imports increased $576.5 billion or 20.5 percent.

Exports of Goods

- Consumer goods increased $1.2 billion as pharmaceutical preparations increased $1.0 billion.

- Capital goods increased $0.9 billion as civilian aircraft engines increased $0.6 billion.

- Automotive vehicles, parts, and engines increased $0.8 billion.

- Industrial supplies and materials increased $0.5 billion as nonmonetary gold increased $1.2 billion and natural gas liquids decreased $0.6 billion.

- Foods, feeds, and beverages decreased $1.1 billion as soybeans decreased $0.5 billion.

Imports of Goods

- Consumer goods increased $5.2 billion as cell phones and other household goods increased $2.4 billion; toys, games, and sporting goods increased $1.0 billion; and household appliances increased $0.6 billion.

- Automotive vehicles, parts, and engines increased $2.4 billion as passenger cars increased $1.4 billion and other automotive parts and accessories increased $0.6 billion.

- Industrial supplies and materials decreased $3.2 billion as crude oil decreased $1.3 billion; finished metal shapes decreased $0.7 billion; and fertilizers, pesticides, and insecticides decreased $0.7 billion.

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By Country and Area

The December figures show surpluses, in billions of dollars, with South and Central America ($5.4), Hong Kong ($1.9), Brazil ($1.2), Singapore ($0.8), and United Kingdom ($0.6).

Deficits were recorded, in billions of dollars, with China ($34.1), European Union ($16.3), Mexico ($11.0), Germany ($5.3), Japan ($5.0), Canada ($4.2), India ($3.9), Taiwan ($3.8), South Korea ($3.7), Italy ($3.1), France ($0.8), and Saudi Arabia ($0.7).

Sources: bea.gov; factset.com; bls.gov; msci.com; fidelity.com;nasdaq.com; wsj.com; morningstar.com