

In this week's recap: Hawkish Fed sees bonds higher and stocks retreat.

Weekly Economic Update

Presented by Keystone Financial Group, January 10, 2022

THE WEEK ON WALL STREET

A jump in yields sparked by a more aggressive sounding Federal Reserve sent the market lower to start the new year.

The Dow Jones Industrial Average fell 0.29%, while the Standard & Poor's 500 declined 1.87%. The Nasdaq Composite index was hardest hit, dropping 4.53% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, slipped 0.55%.^{1,2,3}

THE TECH WRECK

The perception of a more hawkish Fed put a hard stop to the year's positive start and pushed bond yields higher and stocks into a broad retreat.

Technology and other high-valuation shares were particularly hard hit by rising yields. Even the larger-capitalization technology companies with strong cash flows and profits were damaged. As yields trend higher, investors are questioning if these companies can lead the market in 2022. Fueling this decline was a four-day sell-off of technology companies by hedge funds that, in dollar terms, represented the highest level in more than ten years. Stocks continued to struggle into the final trading day, unsettled by a renewed climb in yields and an ambiguous employment report.⁴

THE FED'S SURPRISE

Minutes of December's Federal Open Market Committee (FOMC) meeting were released last week and it revealed a more hawkish Fed than investors had been expecting. One surprise was that the first hike in interest rates could occur as early as March. Another, and perhaps more consequential, surprise was the idea of beginning a "balance sheet run-off" by the Fed following the first hike in the federal funds rate.⁵

A balance sheet run-off means that maturing bonds won't be replaced with new bonds, the result of which is a smaller Fed balance sheet. Many investors view this step as removing liquidity from the system, a departure from market expectations that the balance sheet would remain flat during the Fed's pivot to monetary normalization.⁵

TIP OF THE WEEK



The first month of the year can be a good time to review and/or rebalance your portfolio, to see that your investments are in sync with your objectives.

THE WEEK AHEAD: KEY ECONOMIC DATA

Wednesday: Consumer Price Index (CPI).

Thursday: Jobless Claims. Producer Price Index (PPI).

Friday: Retail Sales. Industrial Production. University of Michigan Consumer Sentiment Survey.

Source: Econoday, January 7, 2022

The Econoday economic calendar lists upcoming U.S. economic data releases (including key economic indicators), Federal Reserve policy meetings, and speaking engagements of Federal Reserve officials. The content is developed from sources believed to be providing accurate information. The forecasts or forward-looking statements are based on assumptions and may not materialize. The forecasts also are subject to revision.

THE WEEK AHEAD: COMPANIES REPORTING EARNINGS

Wednesday: Infosys Limited (INFY)

Thursday: Delta Airlines, Inc. (DAL), Taiwan Semiconductor Manufacturing Company, Ltd. (TSM)

Friday: JPMorgan Chase & Co. (JPM), Citigroup, Inc. (C), Wells Fargo & Co. (WFC), BlackRock, Inc. (BLK).

Source: Zacks, January 7, 2022

Companies mentioned are for informational purposes only. It should not be considered a solicitation for the purchase or sale of the securities. Investing involves risks, and investment decisions should be based on your own goals, time horizon, and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold,

investments may be worth more or less than their original cost. Companies may reschedule when they report earnings without notice.

QUOTE OF THE WEEK



“Many men go fishing all of their lives without knowing that it is not fish they are after.”

HENRY DAVID THOREAU

Market Index	Close	Week	Y-T-D
DJIA	36,231.66	-0.29%	-0.29%
NASDAQ	14,935.90	-4.53%	-4.53%
MSCI-EAFE	2,323.20	-0.55%	-0.55%
S&P 500	4,677.03	-1.87%	-1.87%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.76%	+0.24%	+0.24%

Sources: The Wall Street Journal, January 7, 2022; Treasury.gov, January 7, 2022

Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, December 31, to Friday, January 7, close. Weekly performance for the MSCI-EAFE is measured from Friday, December 31, open to Thursday, January 6, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

THE WEEKLY RIDDLE



I'm soft enough to soothe the skin, as well as make rocks crumble. I'm often slippery and on the move. What am I?

LAST WEEK'S RIDDLE: I was framed, yet the man who framed me committed no crime. How is this possible?

ANSWER: I'm a picture, and I was put in a picture frame.

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CITATIONS:

1. The Wall Street Journal, January 7, 2022
2. The Wall Street Journal, January 7, 2022
3. The Wall Street Journal, January 7, 2022
4. CNBC, January 6, 2022
5. The Wall Street Journal, January 5, 2022