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WEALTH MANAGEMENT

The Weekly Market Update – 3/7/22: Strong Jobs Report, But Russia Drives Markets

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,328.87	-1.27%	-9.18%	-9.18%	13.58%	4,796.56	10.8%
Dow Jones Industrial Average	33,614.80	-1.30%	-7.49%	-7.49%	8.67%	36,799.65	9.5%
NASDAQ Composite	13,313.44	-2.78%	-14.90%	-14.90%	0.92%	16,057.44	20.6%
Russell 2000	2,000.90	-1.96%	-10.89%	-10.89%	-9.09%	2,442.74	22.1%
MSCI EAFE (USD)	2,035.47	-6.53%	-12.87%	-12.87%	-6.15%	2,398.71	17.8%
MSCI Emerging Markets (USD)	1,144.91	-2.31%	-7.07%	-7.07%	-14.51%	1,444.93	26.2%
Bloomberg Commodity Index	127.03	13.02%	28.09%	28.09%	48.96%	237.95	87.3%
Barclays U.S. Aggregate Bond	101.00	0.92%	-3.56%	-3.56%	-5.47%	112.07	11.0%

Source: FactSet

Employment gains in February were better than expected as Omicron headwinds subsided. The U.S. Bureau of Labor Statistics (BLS) reported that February nonfarm payrolls (jobs) increased by 678 thousand (K), and jobs reports from the prior two months were revised modestly higher. Not only did February jobs exceed the FactSet consensus estimate of 400K, but also gains were widespread across major worker groups, including increases in leisure and hospitality (+179K), professional and business services (+95K), health care (+64K), construction (+60K), and transportation and warehousing (+48K). Jobs gains continued (monthly gains over the past three months averaged 582K) despite inflationary pressures on wages and other costs, and COVID-19 concerns as Omicron cases peaked during this period. While consumer activity dipped in December and January, hiring did not, and this bodes well for consumer spending trends in upcoming months. But some of that optimism is now being tempered by mounting uncertainty from the Russia-Ukraine war and sharply rising gas prices. In February, the unemployment rate dropped to 3.8%, the lowest in two years (3.5% in February 2020). The labor participation rate nudged higher to 62.3%, also the highest since 63.4% in February 2020. While the February data showed that the 157.7 million (M) people employed were just 1.0M below February 2020 levels, we estimate that if participation can return to that 63.4% level, employment remains 2.9M below peak capacity. February wages (as measured by average hourly earnings - AHE) increased 5.1% year-over-year (Y/Y), which was below the 5.5% Y/Y increase in January. On a two-year basis AHE increased 10.8%, below the 11.0% two-year gain in January, and the first lower sequential two-year gain in six months. Slowing wage growth is positive for corporations as they address the impact of rising cost pressures on margins, but less positive for consumers facing inflationary pressures on fuel, food and other day-to-day items. This is expected to be a balancing act over the next few months as the war in Ukraine is likely to push out the easing of headline inflation trends by at least a few months.

Oil prices surged to 13-year highs extending the rally in stocks in the Energy sector, but creating headwinds for economic growth. West Texas Intermediate (WTI) oil was trading above $117 per barrel on Monday, 3/7/22, its highest level since August 2008. From $75 per barrel on 12/31/21, WTI has surged 56% in 2022 and has increased 25% since 2/16/22, when Russia first moved troops into Ukraine. The S&P 500 Energy sector rallied 9.7% from 2/16/22 to 3/4/22, and through 3/4/22 was up 34.8% year-to-date. The surging oil prices should contribute to an increased earnings outlook for the sector over the next several quarters. Consumers and companies are likely to face challenges related to higher gasoline and other fuels prices, impacting transportation, heating, airline travel, and fulfillment and delivery. According to Reuters (sourcing data from AAA), the U.S. national average for regular gasoline was $4.00 per gallon last week, up 45% from $2.76 one year ago.

Equity markets are lower to begin the week as Russia-Ukraine is the lead story and investors fear slowing growth. In mid-morning trading the S&P 500 index was down 1.9% Monday, and the Nasdaq Composite was 2.0% lower. The largest risk to growth comes from surging oil prices, but investors also fear potential contagion from risk of recession in Europe. The February consumer price index (CPI) from the BLS is due Thursday, and an increase of 7.9% is expected, continuing a higher Y/Y trend since September.

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Please refer to page 2 of this report for detailed disclosure information.

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