JANUARY 2022

Capital Markets Commentary

MEEDER

» Supply Chain Issues

» Inflation Running Wild

» Fed Ready to Combat Inflation

OVERVIEW

The S&P 500 Index posted a total return of +28.7% in 2021 but pulled back -5.1% in the first month of 2022. The bond market, as represented by the Bloomberg U.S. Aggregate bond index suffered a decline of -1.5% in January. U.S. small-cap stocks were the worst performers of the domestically, falling more than -9.6%. Investors that shifted their allocation toward value stocks weathered the market's downturn far better than those that remained in growth stocks. The energy sector continued to be the best performing sector by far, rising 18.8%. Oil was a main driver of the energy sector's outperformance, as WTI rose more than 14% in January alone.

EMPLOYMENT SITUATION

Nonfarm payrolls added 467,000 jobs, missing the consensus estimate of 510,000 in January. The unemployment rate also rose slightly from 3.9% to 4.0%. According to the Bureau of Labor Statistics, there were 68.9 million people in the U.S. that separated from their employer in 2021. Out of this number, 47.4 million workers voluntarily quit their job. Economists are calling this event "The Great Resignation." This has caused staffing shortages across the economy that range from the most basic to the most skilled positions in the workforce. There are now more than 10.9 million job openings in the United States.

The lack of staffing has forced some factories and businesses to operate with fewer employees. Even worse, are those companies that cannot stay open during their regular business hours because they do not have the staff necessary to function. Despite all of this, productivity as measured by GDP exceeded expectations for the fourth quarter of 5.5% with a result of 6.9%.

PENT-UP DEMAND AFTER COVID-19

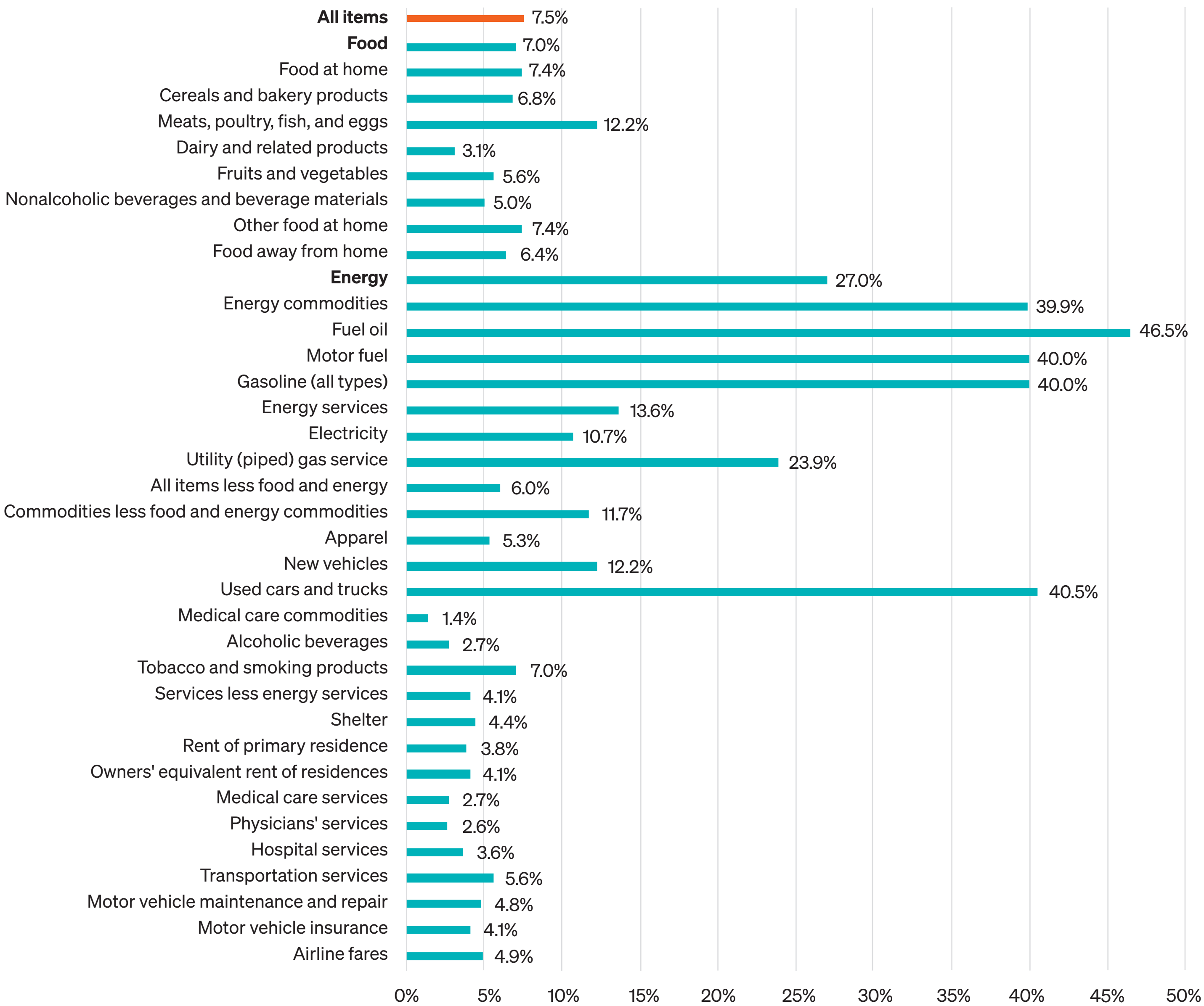
More people are getting back to their normal routines after being restricted from traveling for the past two years due to COVID-19 precautions. There are already signs of pent-up demand, especially within the travel industry. Airlines and hotels are seeing substantial increases in reservations for travel beginning in the Spring.

SUPPLY CHAIN ISSUES

For those businesses making products, consumer demand is not always being met because of a backlog of cargo containers at different U.S. shipping ports. As of January 25th, the Wall Street Journal reported that there are more than one hundred ships in queue waiting to be unloaded at two ports in California alone. In addition, one-third of the ships that have reached the Los Angeles port are not being unloaded because there is no room on the docks to unload the cargo containers. This is because there are not enough truck drivers to haul the previously unloaded containers on the dock away. This inefficiency has led to factories with no raw materials and stores with little or no inventory available to put on store shelves. This bottleneck continues to be a contributor to the existing inflation issue and is why it continues to be a primary issue that investors are facing.

CPI-Unadjusted Change

January 2021 – January 2022



SOURCE: BUREAU OF LABOR STATISTICS

INFLATION RUNNING WILD

In its most basic form, inflation occurs when the demand for a product or service remains high and the supply is not adequate to fulfil this need. As a result, the costs of the products rise. As of January 31st, CPI reached a 40-year high with an increase of 7.5% year over year. Even when you exclude food and energy core CPI rose 6.0%. That makes it the highest level on record since February 1982.

FED READY TO COMBAT INFLATION

The Fed admitted in their meeting notes that they are behind the curve when dealing with inflation. The inflationary spike that the committee previously called “transitory,” rose to levels not seen since 1982. The Fed states they are going to take substantial steps to correct the issue. They announced that the committee will be reducing all future asset purchases each month until they have stopped the monetary easing in early 2022. Once complete, they will begin tightening fiscal policy by raising short-term interest rates. According to a CME FedWatch, the market is currently pricing in a 75% likelihood of a 0.25% increase in the overnight lending rate in March 2022. Currently, the market is expecting there to be at least three interest rate hikes of 0.25% in 2022. Other investors think the Fed could be more aggressive and are pricing in the possibility of a 0.50% hike in March, followed by two more 0.25% hikes later in the year.

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