

THE WEEK IN REVIEW

U.S. stocks struggled for a second straight week as investors assessed the potential market impacts of rising inflation, mixed economic data and building expectations for several Fed rate hikes in 2022. Within the S&P 500, the energy (+5.2%) and communication services (+0.5%) sectors were the only two groups to record a positive return this week. Year to date, many of the highest flying technology stocks of 2021 that populate the Nasdaq 100 have been among the biggest decliners. Stocks of companies with supercharged revenue growth expectations, but disproportionately small earnings, have come under pressure in recent weeks amid rising bond yields. Federal Reserve policymakers have made it increasingly clear they expect to enact several quarter-point rate hikes in 2022. In a Wednesday night PBS interview, San Francisco Fed President Mary Daly (one of the most dovish regional Federal Reserve Bank presidents) said she expects the Fed's policy rate to be raised as early as March.

The U.S. Treasury yield curve flattened this week, as yields on the two-year note climbed 0.10% to 0.97%, while yields on the 10-year maturity rose by only 0.03% to 1.79%. West Texas Intermediate (WTI) crude oil futures eclipsed \$84.00 per barrel today, a roughly 28% gain from a four-month low of \$65.57 on December 1. The sharp upward move in oil prices has been driven by expectations for modest declines in global oil inventories during a period of resurgent demand.

The Consumer Price Index (CPI) and Producer Price Index (PPI) both rose in December, but at a decelerating pace compared to recent months. In December, CPI increased at a 0.5% pace compared to monthly gains of 0.8% and 0.9% in November and October, respectively. On a year-over-year basis, CPI climbed 7.0% in December, marking the fastest 12-month pace since 1982. PPI rose 0.2% in December from an upwardly revised 1.0% gain in November and increased 9.7% from a year ago.

U.S. retail sales fell 1.9% in December compared to November, which was well below expectations for a 0.1% decline. Meanwhile, the University of Michigan's preliminary U.S. consumer sentiment index declined to 68.8 in January from 70.6 in December as consumers expressed concern about the fast-spreading COVID-19 Omicron variant and elevated inflation. Taken together, weaker-than-expected retail sales and consumer sentiment data suggest U.S. economic growth was probably dented in December. Investors will get a clearer picture with the initial estimate of fourth quarter U.S. Gross Domestic Product (GDP) growth which is scheduled to be released on January 27.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
NFIB Small Business Optimism	98.9	99.1	▼
Consumer Price Index (Y/Y)	7.0%	5.4%	▲
Producer Price Index (Y/Y)	9.7%	8.8%	▲
Retail Sales (M/M)	-1.9%	0.7%	▼
U. of Mich. Consumer Sentiment	68.8	71.7	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	35911.81	-0.88%	-1.17%	15.88%
NASDAQ	14893.75	-0.28%	-4.80%	13.58%
S&P 500	4662.85	-0.31%	-2.17%	22.84%
MSCI EAFE	2359.59	1.31%	1.01%	6.80%
Bbg Barclays Aggregate US	2324.36	0.23%	-1.31%	-1.96%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.12%	0.04%	0.07%
10-Year Treasury	1.79%	1.44%	1.13%

REPORTS DUE NEXT WEEK	LATEST
Building Permits (Millions Annualized)	1.72
Housing Starts (Millions Annualized)	1.68
Existing Home Sales (Millions Annualized)	6.46

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.