

EMERALD

MARKET VIEW WEEKLY

January 21st, 2022



ECONOMIC REVIEW¹

- Housing starts for the month of December increased 1.4% month-over-month, well above economists expectations of a -1.7% decrease.
- Existing home sales for the month of December decreased -4.6% on a month-over-month basis which was well below the expectation of a -0.6% decrease.

INSIGHT: Home construction ended 2021 on an overall upbeat note, rising for a third consecutive month to end the year. However, all of the gains for December were attributable to multi-family starts, which were up 10.6% for the month while single family starts dipped -2.3%. With interest rates set to increase, the demand for single family properties may start to slip. If this is the case, demand may begin shifting toward the rental sector, increasing demand for multi-family properties. Single-family starts were up 12.3% in 2021 while multi-family starts rose 20.0%. After posting three consecutive increases, existing home sales slipped in December. Although sales faded slightly late in the year, 2021 was very strong as over 6 million homes were sold, the highest mark since 2006. The median price of an existing home rose to \$358,000 in December, up 15.8% compared to 2020.



A LOOK FORWARD¹

- The Conference Board Consumer Confidence Index will be released on Tuesday, and the expectation among economists is for the index to fall to 111.8 from the previous reading of 115.8.
- Gross Domestic Product (GDP) for the fourth quarter will be released on Thursday, and the expectation is for GDP to increase by +6.0% for the quarter on an annualized basis.
- The Personal Consumption Expenditure (PCE) will be announced Thursday, the survey estimate is expecting an increase of +0.4% on a month-over-month basis.

INSIGHT: Consumer perceptions regarding inflation and its significance and persistence are important in determining actual inflation. In response to these expectations, businesses tend to raise prices, and workers tend to demand wage increases to compensate for the rise in prices. Former Fed chair Ben Bernanke stated in 2007 “if the public experiences a spell of inflation higher than their long-run expectation, but their long-run expectation of inflation changes little as a result, then inflation expectations are well anchored. If, on the other hand, the public reacts to a short period of higher-than-expected inflation by marking up their long-run expectation considerably, then expectations are poorly anchored.” While current inflation expectations matter, their relation to longer-dated expectations are also drivers of price increases. In terms of economic growth, the United States is expected to wrap up a strong 2021 as the fourth quarter results for GDP will be announced. Although the Omicron Variant was a disruptor late in the year, economic growth is still projected to be strong and close off an above trend 2021.

MARKET UPDATE

Market Index Returns as of 1/21/22 ¹	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-5.67%	-7.66%	-7.66%	15.76%	20.16%	16.25%
NASDAQ	-7.55%	-11.98%	-11.98%	2.42%	25.45%	21.06%
Dow Jones Industrial Average	-4.55%	-5.63%	-5.63%	11.96%	13.97%	14.09%
Russell Mid-Cap	-6.08%	-9.40%	-9.40%	6.63%	16.07%	12.46%
Russell 2000 (Small Cap)	-8.07%	-11.44%	-11.44%	-6.24%	11.66%	9.41%
MSCI EAFE (International)	-2.08%	-2.19%	-2.19%	5.72%	10.88%	8.61%
MSCI Emerging Markets	-1.04%	1.03%	1.03%	-9.59%	9.35%	9.32%
Bloomberg Barclays US Agg Bond	0.05%	-1.77%	-1.77%	-2.53%	4.17%	3.19%
Bloomberg Barclays High Yield Corp.	-0.68%	-1.54%	-1.54%	2.99%	6.92%	5.73%
Bloomberg Barclays Global Agg	-0.19%	-0.94%	-0.94%	-4.98%	3.22%	3.11%



OBSERVATIONS

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -5.67% on the week.
- In the U.S., smaller sized companies underperformed their larger-sized counterparts, as the Russell 2000 index decreased by -8.07% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -2.08%, outperforming domestic stocks.
- Emerging market stocks were down on the week with the MSCI EM decreasing -1.04%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.05%.



BY THE NUMBERS

STOCK CORRECTION - After closing at an all-time high of 16,057 on 11/19/2021, the NASDAQ Composite index has fallen 14.2% (total return) over the next 2 months to close at 13,769 on Friday 1/21/2022. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system (source: NASDAQ).

UP/DOWN - The S&P 500 index has been up 40 of the last 50 years, i.e., 1972-2021, gaining an average of +11.1% per year (total return). The stock index has produced an average annual gain of +18.8% (total return) during the 40 “up” years while losing an average of 14.8% per year (total return) during the 10 “down” years. The S&P 500 is down 7.7% YTD (total return) through Friday 1/21/2022. The S&P 500 consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

WHICH SHOULD YOU FOLLOW? - As of 12/31/2021, the S&P 500 represents 79% of the stock market capitalization of the entire US stock market, i.e., \$42.4 trillion of \$53.4 trillion. As of 12/31/2021, the 30 stocks that make up the Dow Jones Industrial Average represents just 22% of the stock market capitalization of the entire US stock market, i.e., \$12.0 trillion of \$53.4 trillion (source: BTN Research).

A MILLION LESS - In the fall of 2019 (pre-pandemic), 15.47 million undergraduates were enrolled in college. In the fall of 2021, 14.44 million undergraduates were enrolled (source: Nat’l Student Clearinghouse Research Ctr.).

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Economic Definitions

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums, and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Conference Board Consumer Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data are data available by age, income, region, and top 8 states.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

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¹ Data obtained from Bloomberg as of 1/21/2022

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