WEEK IN **PERSPECTIVE**

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2022 Begins with a Huge Jump in Rates & a Growth-Stock Beatdown

The first week of the new year saw heavy selling in the growth stocks, a rotation into value stocks, and a sharp rise in long-term interest rates. The Nasdaq Composite dropped 4.5%, the Russell 2000 dropped 2.9%, and the S&P 500 dropped 1.9%.

The Dow Jones Industrial Average declined just 0.3% after setting intraday and closing record highs -- as did the S&P 500 -- early in the week.

The S&P 500 information technology (-4.7%), health care (-4.7%), and real estate (-4.9%) sectors fell more than 4.5%, while the energy (+10.6%) and financials (+5.4%) sectors rose more than 5.0% and 10.0%, respectively, amid higher oil prices ($78.94, +3.79, +5.0%) and a steepened yield curve.

The growth-stock weakness was linked to the rise in the 10-yr yield, which hit 1.80% on Friday after starting the week at 1.51%. The first 12-basis-point increase didn't deter risk sentiment, though, evident in the S&P 500 setting record highs to start the week and Apple (AAPL) reaching the $3.0 trillion market capitalization.

The persistent advance to 1.80%, however, was unsettling and opened the door for 2.00%. The increased likelihood for a higher interest-rate environment this year contributed to the rotation into value stocks, even after a broad-based decline following the December FOMC Minutes on Wednesday.

The FOMC Minutes showed that participants thought it would be appropriate to reduce the size of the Fed's balance sheet at a faster pace than during the previous normalization period, as well as starting closer to the first rate hike than last time. Part of the reasoning was the economic outlook is stronger and the balance sheet is simply a lot bigger now.

Expectations for a more assertive Fed were supported by the Employment Situation report for December, which depicted a tight labor market with strong wage gains and near-max employment. Nonfarm payrolls increased by 199,000 (Briefing.com consensus 440,000), the unemployment rate declined to 3.9% (Briefing.com consensus 4.1%), and average hourly

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earnings rose 0.6% (Briefing.com consensus 0.4%).

The CME FedWatch Tool increased the probability for the first rate hike in March to 75.7%, versus 54.0% one week ago. The 2-yr yield, which tracks expectations for the fed funds rate, rose 14 basis points to 0.87%. The 10-yr yield ended the week at 1.77%, or 26 basis points above last Friday's settlement.

Interestingly, the rotation into value/cyclical stocks happened despite the deceleration in the ISM Manufacturing and Services PMIs for December and daily COVID-19 cases topping 1 million early in the week.

On a technical note, S&P 500 closed just above its 50-day moving average (4675) at week's end.

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