

# Wentz Weekly

January 3, 2022

## Another Record Year, But Weakness Beneath The Surface



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One year ago, we were looking forward to a new year (after what the world went through in 2020!) and hoped to have the worst of the pandemic behind us. However, 2021 was met with two new coronavirus variants, both resulting in a new high in daily cases, and a list of new headwinds including supply chain and bottleneck issues, high inflation, labor shortages, and rising interest rates. Despite these headwinds, resiliency in the markets continued with the S&P 500 making 70 new record highs, the most since the index saw 77 record highs in 1954, and a gain of 26.9%, equaling roughly the same growth in earnings. Not all stocks are seeing the returns of the index though. In fact, the average Dow and S&P 500 stock is down over 10% from its high. In addition, the index is being driven mostly by the top weighted names – the top 7 weighted stocks in the index made up 12.5% of 2021's returns (46% of the index return). In general, active management did not win in 2021 but we believe it will in 2022 as we will see a much more volatile market.

Last week lacked economic/company headlines and continued to be dominated by the spread of Omicron. Many states have surpassed previous daily new positive case records, and the U.S. as a whole exceeded its own record levels from January 2021. Hospitalizations are rising as well, albeit no where near the rate as positive cases and still well below the January 2021 levels. The economy received a bit of welcoming news after the CDC announced it was cutting the recommended isolation period in half to five days for those that test positive. This will get the infected back to work quicker and an even less impact to the economy. As we have said, hospitalizations are the main focus and we believe the market agrees, reflecting its continued move higher.

Home prices continue to grow at a above average pace, gaining 0.8% in October after a 1.0% increase in the month prior, according to data from the S&P CoreLogic Case-Shiller Home Price Index. Home prices on average are 19.1% higher from a year earlier, close to a record high but decelerating from the past three months as the index is beginning to face tougher comparisons from a year ago. The four latest months were the four highest year-over-year gains in home prices ever. Tampa (+1.9%) and Miami (+1.8%) saw the largest gains in the month while Minneapolis (-0.1%) was the only city with a decline. Compared to a year ago Phoenix (+32.3%), Tampa (+28.1%) and Miami (25.7%) are the three hottest markets while Chicago and Minneapolis (both +11.5%) and Washington (+12.0%) were the lowest growth. There are several reasons for the strong increase in home prices including low interest rates but covid is having a large impact as well as buyers are moving from urban apartments for example to suburban houses. As Craig Lazzara, head of index investment strategy at S&P says, the "demand surge may simply represent an acceleration of purchases that would have occurred anyway over the next several years."

With a new year, the Federal Reserve's policymaking committee is set to undergo its annual rotation, resulting in a different makeup of voting members. This year's new members are expected to lean more hawkish. The Federal Open Market Committee (FOMC) is the policymaking arm of the Fed and consists of 12 members – the 7 Board of Governors members, the president of the Bank of New York, and 4 of the remaining 11 district bank presidents (these 11 rotate annually). Among those being added as a voting member include St. Louis Fed President James Bullard, who is known as one of the most hawkish Fed members currently. This could have an impact on how quickly the Fed tightens monetary policy as the economy deals with high inflation and a tighter labor market, but at the end of the day Fed President Powell will hold a majority of the weight in the decision making.

## Company News

- Tesla said over the weekend it delivered over 308,000 vehicles in the fourth quarter, much more than the markets expectation of 263,000. In all of 2021, the company delivered 936,000 vehicles, a rise of 87.4% from 2020 and above the company's target.
- Memory chip makers Micron and Samsung said they expect a delay in the supply of their memory chips as a result of lockdowns in the Chinese city of Xian. Micron said it should meet most of its customer demand, but said production will be impacted.
- Separately, The Korea Economic Daily reported that Samsung was in talks to buy the US based biotech firm Biogen. The report said Biogen approached Samsung to sell its shares but Samsung was at the "table with the sell side to acquire Biogen."

## The Week Ahead

The economic calendar picks up this week, the earnings calendar has a few notable companies reporting quarterly results, and there will be corporations making headlines this week in conferences. The highlight of the week on the economic calendar is the employment report of Friday where the consensus sees 400,000 new payrolls in December after a disappointing 210,000 from November. Also on the calendar is several manufacturing survey indices, construction spending, job openings and labor turnover survey, weekly jobless claims, and vehicle sales for December including from EV makers. The FOMC will release the minutes from its most recent meeting on Wednesday. OPEC will hold a meeting Tuesday to discuss its path of oil production and whether to maintain previous quotas. On the earnings calendar notable reports are confined to Thursday and include Bed, Bath & Beyond, Walgreens, Constellation Brands, and Conagra. Finally, the Consumer Electronic Show, one of the largest tech conferences of the year, takes place in Las Vegas from Wednesday through Saturday. Many exchanges around the world are closed Monday in observance of New Year's Day, but U.S. exchanges have a full week of trading.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur. Opinions expressed in the attached article are those of the author and are not necessarily those of Raymond James. All opinions are as of this date and are subject to change without notice.