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The SITREP for the week ending 01/07/2022

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SIT REP: n. a report on the current situation; a military abbreviation; from "situation report".

In the markets:

U.S. Markets: U.S. stocks continued pulling away from their record highs as significantly higher interest rates took a toll on growth and technology stocks. The technology-heavy NASDAQ Composite shed over 700 points finishing the week at 14,936—a decline of -4.5%. The Dow Jones Industrial Average held up the best giving up just 0.3% and closing at 36,232. **By market cap, the large cap S&P 500 closed down -1.9%, while the mid cap S&P 400 shed -1.7%. The small cap Russell 2000 ended the week down -2.9%.**

International Markets: International markets finished the week mixed. Canada's TSX declined -0.7% and the United Kingdom's FTSE 100 rose 1.4%. On Europe's mainland, France's CAC 40 and Germany's DAX rose 0.9% and 0.4%, respectively. In Asia, China's Shanghai Composite declined -1.7% and Japan's Nikkei fell -1.1**%. As grouped by Morgan Stanley Capital International, developed markets and emerging markets each ticked up 0.1%.**

Commodities: Precious metals finished the week in the red. Gold retreated -1.7% to $1797.40 an ounce, while Silver shed -4.0% and closed at $22.41. **Energy rose for a third consecutive week.** West Texas Intermediate crude oil gained 4.9% to close at $78.90 per barrel. Copper, viewed by some analysts as a barometer of world economic health due to its wide variety of industrial uses, finished the week down -1.2%.

U.S. Economic News: Applications for first-time unemployment benefits rose slightly last week to 207,000, the Labor Department reported. The reading remained near its more than 50-year low, suggesting that the soaring number of Omicron cases isn't having much effect on layoffs. Economists had expected initial jobless claims to total 195,000. Some analysts note that the government's method of adjusting jobless claims for seasonal swings can sometimes skew the readings too much, especially around the holiday season at the end of the year. The raw or actual number of jobless claims jumped by 315,469 last week, likely the result of people losing their temporary holiday jobs and possibly Omicron-related layoffs. Meanwhile, **continuing claims, which counts the number of people already receiving benefits, increased by 36,000 to 1.75 million. That number is back to pre-pandemic levels.**

The U.S. created just 199,000 new jobs in December, signaling that persistent labor shortages and the coronavirus variant continue to hold back the U.S. economy. The reading was well below Wall Street's expectations for 422,000 new jobs. Also in the release, the Bureau of Labor Statistics reported **the jobless rate slipped 0.3% to 3.9%--a new pandemic low.** The rate stood at 3.5% right before the pandemic began. In another good sign, more people entered the labor force for the third month in a row. That kept the so-called **labor-force participation rate at a pandemic high of 61.9%.** Companies in the hospitality business such as restaurants and hotels led the way in hiring last month. They added 53,000 jobs. Professional businesses hired 43,000 people, manufacturers added 26,000 jobs, construction employment rose by 22,000 and transportation and warehouse firms beefed up payrolls by 19,000.

The number of Americans quitting their jobs surged by 370,000 to a record 4.5 million in November, the Labor Department reported. The reading pushed the so-called **'quits rate' to 3%--also matching a prior record high.** While a higher 'quits rate' is generally regarded as positive for the economy, as it is assumed one would only quit a job in favor of a more lucrative one, analysts aren't so sure this reading is a positive. **Some analysts worry that the high quits rate may lead to higher wage inflation and cause the Federal Reserve to take more drastic action to cool the economy.** Also in the report, job openings fell by 529,000 to 10.6 million at the end of November. Economists had forecast an increase of 500,000 to 11.1 million vacancies.

Manufacturing activity remained strong at the end of year, but was slightly weaker than initially reported. Analytics firm IHS Markit reported the final reading of its manufacturing Purchasing Managers Index (PMI) was adjusted downward to a reading of 57.7. Its reading for November was 58.3. Sian Jones, senior economist at IHS Markit, said **material shortages and supplier delays dragged down the index.** New orders rose at their slowest pace for the year. Of note, there was some relief on cost pressures. That sub-index rose at its slowest pace over the last six months.

The Institute for Supply Management (ISM) released a similar report regarding manufacturing. **The ISM index of U.S.-based manufacturers dropped 2.4 points to 58.7 in December.** That reading was its lowest reading since January of last year. Economists had expected the index to slip only slightly to 60.0. As in Markit's report, ISM reported its measure of inflation fell to its lowest level in 13 months. The prices index sank to 68.2 from 82.4. However, Tim Fiore, chairman of the survey remained cautious stating he expects prices to continue to rise until the middle of the year before reaching a top. "I don't think prices have peaked yet," he said.

At its last meeting in December, **Federal Reserve officials seemed eager to convince the country that they have a plan for moving away from their current easy policy stance** minutes showed. The summary stated, "Participants generally noted that, given their individual outlooks for the economy, the labor market, and inflation, **it may become warranted to increase the federal funds rate sooner or at a faster pace than participants had earlier anticipated.**" At the meeting, Fed officials had a wide-ranging discussion of how to move policy away from its current easy stance by hiking rates and also shrinking its $8.67 trillion balance sheet. After reading the minutes, Katherine Judge, economist at CIBC Securities, said she thinks the Fed will begin to shrink the balance sheet "relatively soon" after the first rate hike in the April-June quarter. **The minutes show that "almost all" Fed officials revised up their forecast for inflation this year and "many" raised their forecast for 2023.**

International Economic News: **Economists expect the Canadian economy could hit a 'two-month air pocket' to start the year.** This week, economists at the Economic Club of Canada's Outlook 2022 event stated **they expected a decline in the first quarter for Canada's economy and for key interest rates to rise 75 basis points this year.** Douglas Porter, managing director and chief economist for BMO Financial Group stated the new Omicron-variant "has thrown a huge curveball" at the economic outlook for the first quarter of 2022. Furthermore, Porter said, "We suspect that the economy will hit about a two-month air pocket due to new restrictions."

Across the Atlantic, the British Chamber of Commerce said the results of a recent survey showed Britain's economic recovery stalled before the arrival of the new Omicron-variant and that the **British government's "plan B" restrictions on consumer spending during the Christmas holiday weighed on sales.** Businesses blamed spiraling inflation and shortages of imported goods for the decline in sales in the fourth quarter of last year. Suren Thiru, the BCC's head of economics, said **sales growth stalled as firms struggled with the "mounting headwinds" of inflation, a scarcity of skilled workers, and problems sourcing products from overseas.**

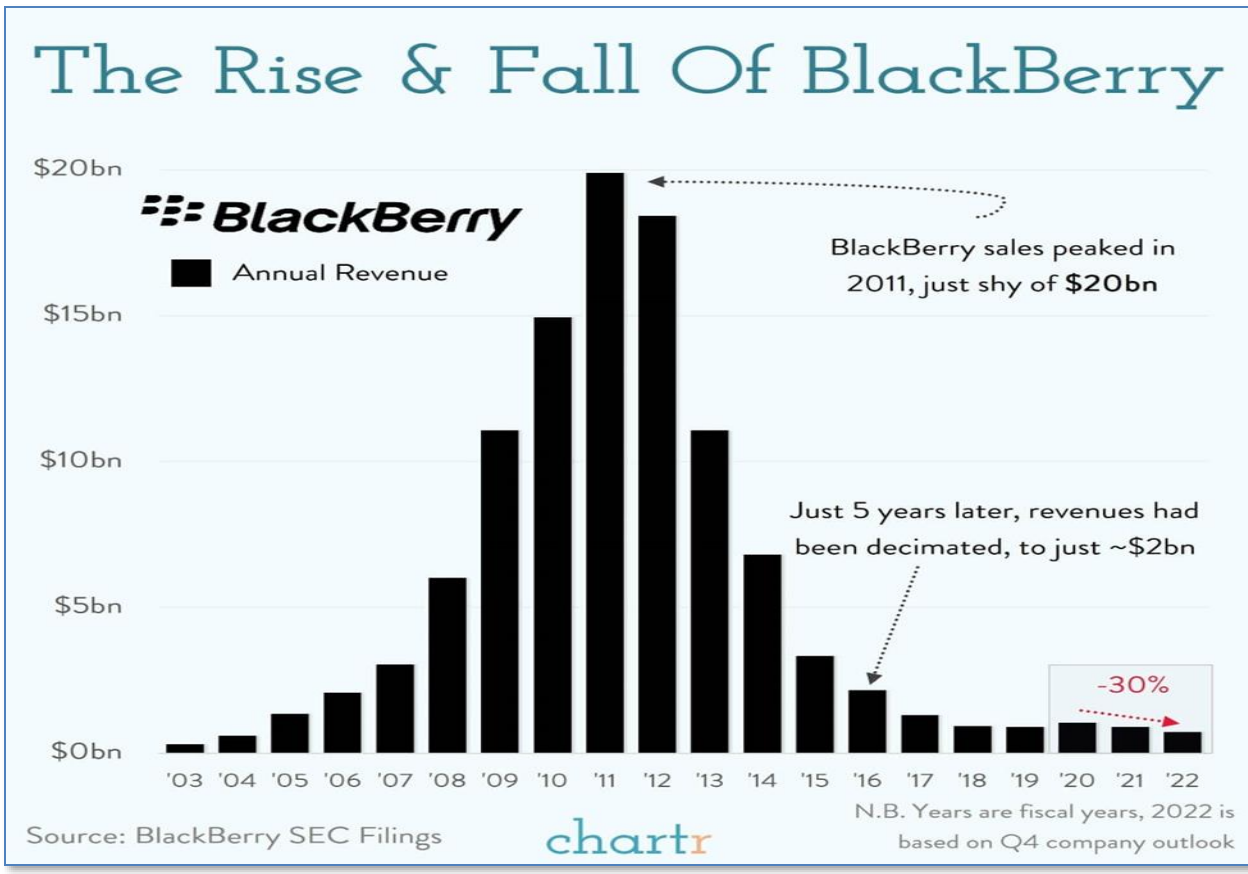
On Europe's mainland, **French Finance Minister Bruno Le Maire said the country's growth would be significantly higher this year than the government's current forecast of 6.25%.** Le Maire also said that even though the surge of the Omicron coronavirus variant was disrupting some sectors there was no risk of it paralyzing the economy. Le Maire's forecast is at the low end of a range of official projections, with the Banque de France seeing the 2021 GDP at 6.7%, the IMF at 6.75% and the OECD at 6.8%.

Inflation in Germany rose to its highest level since 1993 according to the country's national statistics agency. Germany's Federal Statistics Office reported consumer prices soared by an average 3.1% in 2021 compared with 2020. The inflation rate shot up to 5.2% in November--a figure not seen since the early 1990s. **The skyrocketing prices are blamed on the global increase in energy prices during 2021**. Annual household energy prices in Germany surged by over 22% in the past year. ECB board member, Isabel Schnabel, said in a recent interview that inflation will stay at an elevated point for a chunk of the year, before declining as 2022 passes.

In Asia, **the Center for Economics and Business Research (CEBR) reported China's GDP is expected to grow 5.7% each year through 2025, and then 4.7% annually until 2030.** Its forecast means China, now the world's second-largest economy, **would overtake the number one ranked United States by 2030.** Chinese leaders have pushed over the past decade to rely more on value-added services over traditional factory exports, state media reports. China's economy totaled $15.92 trillion in 2020, and market research firm IHS Markit estimates that it reached $18 trillion last year on export manufacturing growth and capital for new projects. The U.S. economy reached about $23 trillion last year, the market research firm said.

About 84% of major companies in Japan expect the country's economy to grow in 2022, a Kyodo News survey showed. The overall percentage of firms forecasting growth in the world's third-largest economy is **up from the 74% in a similar poll conducted last year.** Prime Minister Fumio Kishida has vowed to minimize the spread of the Omicron variant of the coronavirus while moving swiftly to get the economy back on track. **Japan has not yet seen a sizable boost in economic activity compared with the United States and Europe**, where so-called "revenge spending" is rather obvious.

Finally: On January 4th, classic mobile phone manufacturer BlackBerry announced it will no longer support any of its phones, the last of which were manufactured in 2016. At one time, a BlackBerry was the very peak of mobile phone technology. With its internal messaging system, generous sized screens, and keyboards BlackBerry had over $20 billion in revenue in 2011. However, just five years later those revenues had collapsed by 90%. Now, the company has been essentially re-born creating "intelligent security software and services to enterprises and governments around the world." (Chart from chartr.co)



(**Sources:** All index- and returns-data from Yahoo Finance; news from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zerohedge.com, ritholtz.com, markit.com, financialpost.com, Eurostat, Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)

The SITREP | Glossary of Terms

Index, Exchange and Investment Definitions:

- **Barclays Aggregate Index -** An unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Barclays U.S. Treasury Bond Index, the Barclays U.S. Government-Related Bond Index, the Barclays U.S. Corporate Bond Index, and the Barclays U.S. Securitized Bond Index.
- **Barclays US Corporate Index** is a broad-based benchmark that measures the investment grade US dollar- denominated, fixed-rate, taxable corporate bond market. It includes USD denominated securities issued by US and non-US industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.
- **Barclays Aggregate Bond Index** (formerly known as the Lehman Brothers Aggregate Bond Index), an unmanaged, market capitalization weighted index of government and corporate bonds, mortgage-backed securities, and other asset-backed securities, with interest reinvested. This index commonly serves as a proxy for the U.S. bond market.
- **The Bloomberg Commodity Index** is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- **CBOE Volatility Index** shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."
- **The DJ Equity All REIT Total Return Index** measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- **The S&P 500** is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.
- **The Dow Jones Industrial Average** is a price-weighted index of 30 actively traded blue-chip stocks.
- **The NASDAQ Composite Index** is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **The Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe: market-cap weighted index composed of 2,000 U.S. small-cap common stocks.
- **The CAC-40 Index** is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse.
- **The ISEQ Overall Index** is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies.
- **The FTSE MIB** (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange.
- **The IBEX 35** is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange.
- **The DAX 30** is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.
- **The FTSE 100 Index** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.
- **The STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index.
- **The RTS Index** (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange.
- **The SSE Composite Index** is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

- **The Shanghai Composite Index** tracks the biggest and most important public companies in China.
- **The Hang Seng Index** is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong.
- **The IDX Composite** or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX).
- **The Korea Composite Stock Price Index** or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange.
- **The Asia Dow** measures the Asia equity markets by tracking 30 leading blue-chip companies in the region.
- **The S&P/ASX 200 Index** is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's.
- **Nikkei 225 (**Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE).
- **The Nikkei Average** is the most watched index of Asian stocks.
- **The BSE SENSEX** (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE).
- **Karachi Stock Exchange 100 Index** (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period.
- **The Dow Jones Americas Index** measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region.
- **The Mexican IPC Index** (Indices de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange.
- **The Bovespa Index** is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.
- **The S&P/TSX Composite Index** is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization.
- **The Global Dow** is an equally weighted index of 150 widely traded blue-chip common stocks worldwide.
- **The MSCI World Index** is a free-float weighted equity index that includes developed world markets and does not include emerging markets.
- **The MSCI EAFE Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.
- **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies.
- **The US Dollar Index** measures the performance of the U.S. dollar against a basket of six currencies.
- **Corporate BBB 1-3-year Index** - as represented by the BBB rated component of the BofA Merrill Lynch 1-3 Year U.S. Corporate Index, comprised of U.S. dollar-denominated investment-grade corporate debt securities publicly issued in the U.S. domestic market with between one and three years remaining to final maturity.
- **High Yield Index** - as represented by the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index, a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment–in-kind securities.
- **10 -Year US Treasury Index** - This index represents a theoretical rolling 10-year U.S. Treasury note, renewed semiannually to a new higher coupon based on the indicated rise in rates.

Index Disclosures:

"An index is a composite of securities that provides a performance benchmark. Indexes are unmanaged, do not incur management fees/costs/expenses, and cannot be invested-in directly. Past performance is not a guarantee of future results."

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