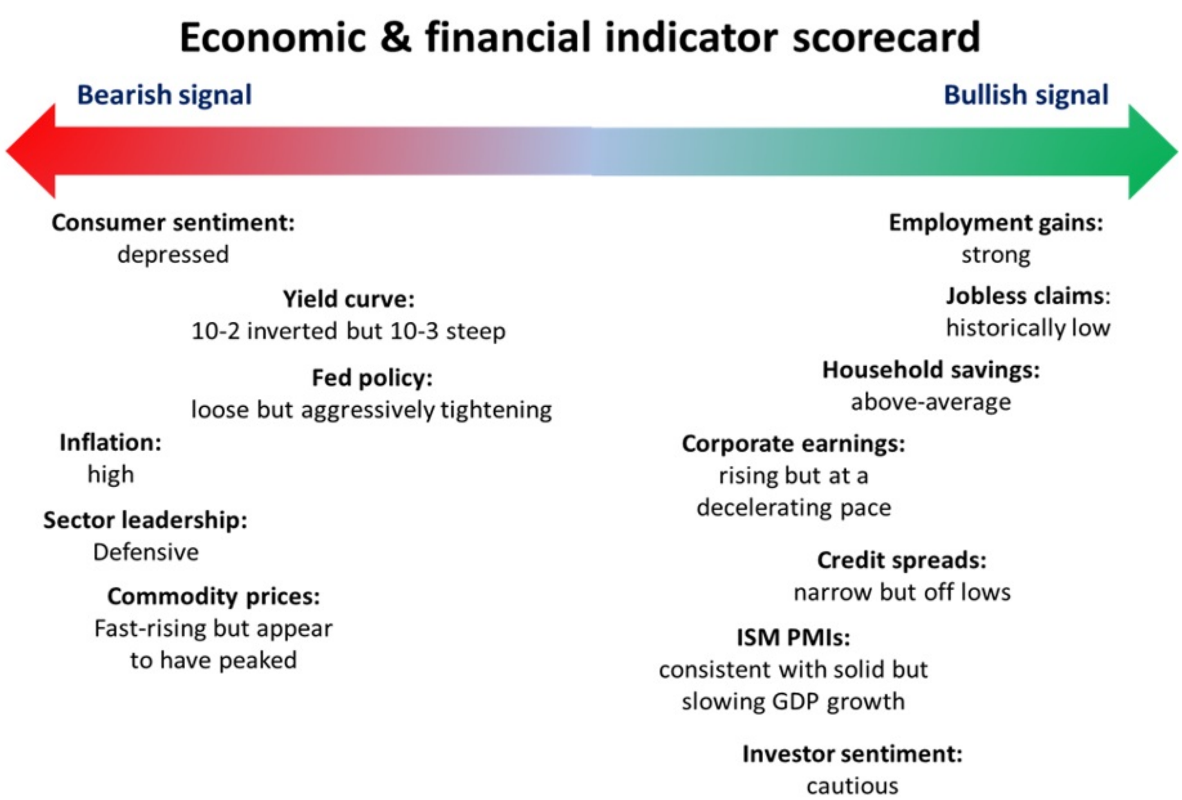
Weekly Market Commentary
April 11th, 2022

Are We Headed Toward a Recession In 2022?

Indicator scorecard signals slowing growth but no recession this year

With the Fed preparing the markets for its most aggressive tightening cycle in decades, it is the fundamental conditions that will determine if higher rates squash inflation without endangering the expansion at the same time. Following a weight-of-evidence approach, the data shows that there is enough underlying strength that the economy can withstand an initial move to a neutral policy setting. However, the removal of the Fed support and rising borrowing costs will likely lead to a slowing economy in the coming months, which is already reflected in some leading indicators.



Source: EJ

The graph shows a dashboard of economic and financial indicators along with their suggested signal about the markets.

- The most encouraging signals about the durability of this expansion come from the labor market. Historically, recessions have always been preceded by a rise in unemployment. Given the record-high ratio of job openings to unemployed people and last week's drop in jobless claims to the lowest level since 1968, there is enough evidence to suggest that consumer incomes will continue to be supported through the rest of the year. The labor-market tightness is unlikely to reverse soon.

- While savings remain elevated and household debt is low, high-energy prices and broadening inflation pressures have already made a dent in consumer confidence and are a credible threat to this year's above-average economic growth. That said, spending has stayed robust even as confidence has been depressed for several months now.

- On the business side, the manufacturing Purchasing Managers' Index (PMI), a leading indicator of economic activity, is currently signaling ongoing economic expansion. However, the March reading fell to its lowest since September 2020 as new orders and production slowed notably, indicating weakening demand. With activity moderating, corporate earnings growth is also expected to slow. Yet the fact that analyst revisions have remained positive in the face of rising rates and geopolitical uncertainty can be interpreted as a sign of resiliency.

- Lastly, the yield curve is sending a cautionary signal, but it would categorize it as a yellow flag instead of a red. The recent brief inversion, or negative spread in 10-year and two-year yields, while a good leading indicator of recessions, has not yet been confirmed by other segments of the yield curve. The 10-year and three-month yield spread remains wide and has historically produced fewer false signals.

The bottom line is that the latest batch of data implies that growth is about to slow, but also suggests that the probability of a recession appears low at the moment. At prior major market peaks, the scorecard shown above had most of the indicators on the left side of the bear-bull spectrum. And the Economic Health Indicator, a model that is based on a combination of the factors with the most leading qualities (yield curve, credit spreads, jobless claims, PMIs, the leading economic index, and building permits), is not currently in the danger zone. As the Fed potentially moves policy into restrictive territory in 2023, the risks are rising. But if inflation moderates more meaningfully later this year, the Fed doesn't have to be as aggressive as currently expected, likely extending the cycle.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,721	-.28%
S&P 500 Index	4,488	-1.28%
NASDAQ	13,771	-3.86%
MSCI EAFE	2,127	-2.52%
10-yr Treasury Yield	2.71%	13.87%
Gold	$1,948	1.19%
Bonds	$104.73	-1.89%

Source: Reuters/Wall Street Journal

Do We Have A Coin Shortage In America?

There's a new reason to break open your piggy bank.

Pocket change is in short supply – again. While some will call it the great coin shortage of 2022, America is facing a coin circulation problem.

Now, a group of trade associations that represent individual businesses including banks, retail outlets, truck stops, grocery stores, and more is asking the Treasury Department for more help convincing Americans to get coins back in circulation, similar to efforts that began in the summer of 2020.

"We can't print our way out of this problem," said Austen Jensen, a Senior Vice President for government affairs at the Retail Industry Leaders Association.
The groups said in a letter dated March 21 to Treasury Secretary Janet Yellen that they want to "meet the demand for coins and ultimately help consumers who rely on cash transactions in their daily lives."

The letter said the "consequences of a coin circulation slowdown fall hardest on consumers that do not have the ability to pay electronically. If retailers are not able to offer change for cash purchases consumers who rely on cash will be vulnerable."

COVID coin shortage

This is not the first time during the pandemic that the issue of low coin circulation has come up.

The coronavirus disrupted consumers' buying habits and shifted purchases largely to plastic cards to such an extent that in the summer of 2020, the Federal Reserve restricted coin orders by financial institutions. Banks also started begging customers to break out their piggy banks to pump more coins into circulation.

In July 2020, months into the pandemic, the Fed convened a U.S. Coin Task Force, made up of representatives from various federal agencies, which led to a campaign encouraging the public to get coins into circulation.

While coin circulation improved in late 2020 and early 2021, now "coins are being rationed once more," the letter to the treasury said.

The task force issued a State of Coin report in February, which said pandemic lockdowns slowed small transactions that generated change and there was a temporary aversion to cash for perceived hygienic reasons. The report also said the Federal Reserve and the U.S. Mint contracted with a third-party consultant to review the coin supply chain.

(Source: USA Today)

Earnings Highlights This Week

Levi Strauss: Denim retailer Levi Strauss reported fiscal first-quarter earnings and revenue that topped analysts' estimates. The company sold more of its jeans and T-shirts at higher price points, often directly to customers. Levi reaffirmed its forecast for fiscal 2022, assuming no significant worsening of inflationary pressures or closures of global economies. Levi CEO Chip Bergh told CNBC that consumers have yet to trade down for less expensive apparel.

News and Notes

What Does It Cost To Raise A Baby In America Now?

How much should a new parent budget if they are expecting a baby?

- According to the U.S. Department of Agriculture, the cost to raise a child to the age of 18 is now approximately $277,000 or $15,400 a year/$1,280 a month.
- The 3 biggest costs identified were housing costs, food, and childcare, and now those costs are up by almost 10%.
- Parents who make less than $60,000 only spend about $9,500 a year and those making more than $100,000 spend roughly $20,000 a year.

Are there one-time expenses parents may want to consider?

- Health Insurance- Depending on your insurance plan, this could cost you thousands of dollars.
- The Baby Room- Between furniture, electronic devices, painting, and lighting this could be more expensive right now.
- College Accounts: It's never too early to think about college and getting a 529 savings plan open for your child. Tuition rates rising at double normal inflation.

Are there other financial items that parents should be revisiting when they have a new baby?

- Life Insurance- this is generally more affordable when you are younger and will make sure your family is well protected.
- Will- If you don't have a will this is a great time to get one, so you control what happens down the road and not your state.
- Dependent Care- your employer may offer a Dependent Care Flexible Spending Account – which can help you pay for dependent care with pre-tax money.

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