

Spoils of War

Downward market pressure early in the week reversed once the Russian invasion of Ukraine began. Markets began climbing the [Wall of Worry](#) we mentioned last week. The situation in Ukraine may continue to dominate headlines this week, but the U.S. economy comes back centerstage with the February Employment Report on Friday. President Biden is also scheduled to make his State of the Union address on Tuesday evening.

The S&P 500 Index ended the week +0.8%, the Dow was flat, and the NASDAQ was +1.3%. The U.S. 10-year Treasury bond yield increased to 1.970% at Friday's close versus 1.927% the previous week.

For the fourth quarter of 2021, 472 companies in the S&P 500 Index have reported earnings results and 76.9% have reported earnings above analyst estimates. This compares to a long-term average of 65.9% and prior four quarter average of 83.9%. The current consensus forecast is for fourth quarter earnings to grow 31.5% on 14.9% revenue growth versus an expectation of 22.4% earnings growth on 12.1% revenue growth at the start of the earnings season. During the coming week, 23 companies in the S&P 500 Index are scheduled to report earnings.

In our *Dissecting Headlines* section, we look at the contrast between the Personal Consumption Expenditures Index and Consumer Price Index in measuring inflation.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	0.8%	-7.8%	Aggregate Bond Index	-0.4%	-3.7%
Dow Jones Industrial Average	0.0%	-6.0%	U.S. Dollar Index	0.6%	0.7%
NASDAQ 100	1.3%	-12.9%	WTI Crude Oil	0.6%	21.8%
Russell 2000 (Small Cap Index)	1.6%	-9.0%	Gold	-0.5%	3.2%
International Stocks (MSCI ex-US)	-3.0%	-5.7%	Real Estate (US REIT Index)	2.1%	-8.6%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: PCE and CPI

The January Personal Consumptions Expenditures (PCE) Index showed year/year inflation at +6.1% and +5.2%, excluding food and energy. This compares to the Consumer Price Index (CPI) which showed +7.5% increase in prices year/year and +6.0% ex food and energy year/year for January.

The CPI appears to be the more popular of the two price measurements in the financial media. It gets released earlier in the month and it is used to adjust social security payments, while also being the reference rate for some financial contracts such as Treasury Inflation Protected Securities (TIPS). The Federal Reserve prefers to look at the PCE when it is considering the level of price inflation in the economy.

Both Indices measure the change in price of a basket of goods and services, but the weightings in each basket can differ. The CPI is based on a survey of what households are buying, while the PCE is based on surveys of what businesses are selling. Another difference is that CPI measures what consumers pay out of pocket and doesn't include some expenditures such as medical care paid for by employer-provided insurance, Medicare, and Medicaid, all of which are included in the PCE. The last major difference, which we think is the easiest to understand, is the substitution effect. If the price of beef increases more than the price of chicken, consumers may buy less beef and more chicken. This realignment of the basket is accounted for in the PCE, but not the CPI.

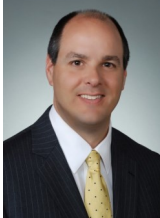
While both measures are useful in understanding the level of inflation in the economy, in a period where the Fed is going to begin raising rates to combat inflation, monitoring the PCE Index has value.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of experience in the investment management industry. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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