Market in Review

Equity Markets:
The theme for last week was uncertainty. Uncertainty led to a volatile week of trading for all markets that saw the S&P 500 trade 1% or more in both the green and red on multiple occasions. Uncertainty is the markets worst nightmare; this leads to the volatile whipsawing we saw last week. The Omicron variant was one of the top reasons for this uncertainty. The US saw it's first case early in the week, and within a matter of days, cases were popping up across the country. This variant is believed to be more transmissible, but to have a strong understanding of the variant will take time. Experts have indicated it will likely take a couple of weeks to understand if Omicron is resistant to the current vaccine, has an increased likelihood of severe illness, and/or an increased mortality rate.

All major indices ended the week in the red, and so did 9 of 11 S&P sectors. The two sectors that were the stars for the week were: Real Estate was essentially flat with a 0.1% gain, and the defensive sector of Utilities, positive ~1%+.

Fixed Income Markets:
Fed Chair Jerome Powell's comments to congress on Tuesday was the other major news. Inflation has been a hot topic for months, and it seems that the Fed may be changing its tune. ***Transitory*** has been the term consistently used for the current inflationary environment. The new phrase appears to be more ***Persistent***. This is a major shift from the Fed; which caused volatility across the Fixed Income and Equity markets. Chairman Powell indicated the Fed is willing to accelerate its plan to taper bond-buying to keep inflation contained.

Equity market volatility and the about face by the Fed led to a drop in the 10-yr Treasury Yield as investors piled into risk-off assets. The 10-yr ended the week with a 1.35% yield, down ~.10% for the week.

Economic:
The majority of economic numbers have remained strong. The lone miss was the November Nonfarm Payrolls. 210k jobs were created in the month of November, which was a big miss from the expected 550k. Looking at the number isolated by itself, it may appear more concerning than what is reality. October and November's payroll numbers were, however, revised higher. As the economy expands, it's unrealistic to expect robust growth every month. The labor market, like the stock market, is dynamic. Economic expansion does not move in a straight line, and some volatility from economic numbers should be expected. The labor force participation rate hit the highest level since March of 2020, and the unemployment rate dropped to 4.2%, which was better than expected.

Looking Ahead

Equity Markets:
The upcoming week will be driven by the same fuel as last week, ***Uncertainty***. As the days go on, new information about Omicron will be released. There are two possible outcomes as we learn more: Omicron is more contagious, resistant to the current vaccines, and there is a increased likelihood of severe illness, or; it will be similar to Delta, and the current protocols in place will help keep it under control.

If the first scenario plays out, downside moves should be expected. If the second scenario plays out, it is likely that the volatility will subside and the current bull market will continue its path higher, and the past couple of weeks will be seen as a small hiccup.

Looking at the first scenario, it is important to remember that we are much more prepared in the later stages of this pandemic. The ability to identify new variants and the protocol to contain outbreaks have shown to be effective. The markets will likely react negatively, but the fear of a repeat of March of last year is unlikely.

Fixed Income Markets:
The markets will have to wait until December 15 to hear from the Fed, as they will go quiet until their next meeting. The likely drivers in the fixed income markets will be Omicron's impact on the equity markets; and the Friday CPI reading, which could influence the Feds policy meeting a few days later.
Economic:
Friday, the CPI numbers for November will released. This reading will be closely watched after Fed Chairman Powell's comments last week. Fed policy appears to be leaning towards the less accommodative side, and hot CPI number could push them even closer to making the decision to tighten faster.

A bright spot throughout this year has been the consumer. Household income and spending have not wavered with some of the recent soft economic numbers. University of Michigan's Consumer Sentiment Index will also be released on Friday. This will be the first reading since the Omicron variant has cluttered the headlines. Has the variant put a pause on the leading component of our GDP? If not, it is likely the markets will shake off the uncertainty.

**Important Disclosures on Reverse Side

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