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WEEKLY MARKET RECAP | DECEMBER 12, 2021

Market in Review

Equity Markets:
After two weeks of down markets, the S&P 500 pulled off a solid week, ending up just under 4%. While most indices reached new all-time highs, the VIX tumbled ~33%. The VIX is a daily gauge that measures investors expectations for market volatility. After the first week of data on Omicron, it is believed to be a less severe strain of COVID-19. Although, it is still believed to be more easily transmitted, the initial findings indicate the likelihood of severe illness is not increased. Pfizer also released initial data showing that 3 doses of their vaccine showed strong protection against the variant. These two pieces helped put investor's minds at ease which led to helped propel all major indices into positive territory for the week.

Fixed Income Markets:
As attention shifted to more risk-on assets, the 10-yr treasury yield ended the week at 1.49%, up 16 basis points from the previous week.

Economic:
Friday's CPI reading came in at 6.8% year-over-year. This is the highest reading since 1982. It also came in close to expectations of 6.7%, leading into the announcement, many market commentators anticipated a reading above 7%. The stock market shrugged off the hot reading, likely due to a higher CPI already priced in. Liz Ann Saunders of Schwab often says: "It's not about good or bad, but better or worse." How the market reacted Friday is a perfect example of this. Market participants expected 7%, it came in at 6.8%. It was better than expected so the market reacted positively.

Consumer Sentiment also came in better than expected at 70.4 vs an expectation of 68. The resilience of the US consumer is something that has fueled this recovery, and it doesn't appear to be slowing.

Looking Ahead

Equity Markets:
The Fed's policy meeting this week will impact all markets. Jerome Powell indicate the Fed is considering reducing their bond purchase programs at a faster rate then first thought. If you couple that with the 6.8% CPI last Friday, many believe the likelihood of that policy action coming to fruition is high. This will likely cause equity market volatility over the short and intermediate term. History has shown that equities have been a strong place to be during rising inflation/rates, despite the increased volatility. It is important to understand the environment going forward, and assess your risk appetite. With volatility expected to remain high, it is the most important time to ensure you are invested appropriately so that you are able to stay invested and are able to digest the volatility that is likely to happen.

Fixed Income Markets:
The Fed's policy meeting will be the key event for the fixed income markets this week. With rates at the lower end of our range that we see for the next 9-12 month, an announcement to reduce the bond buying program at a faster rate will likely push rates towards the higher end of our rate range, which is 1.75-2%. The bond market may have already priced in the original timeline, so if the Fed sticks to their original plan, the fixed income markets might see some rate compression or rates will stay fairly similar.

Economic:
Outside of the Fed, eyes will be on the debt ceiling. After a short-term solution to avoid a shutdown a week ago, Congress is once again on the clock. Congress will need to act before the December 15 deadline. The debt situation seems to always be pushed to the last minute, although this can have short term impacts on the markets; it is not likely to have a long-term impact. It is important to remember that the short-term noise can impact day-to-day stock prices, but the main driver of a stock's price over the long-term is the ability to generate cash flow/earnings. We are long-term investors, so we find put more weight on the factors that have shown to impact long-term stock performance, rather than trying to predict the short-term volatility.