December 13, 2021

Weekly Viewpoint

Omicron Fears Weigh on the Markets

Performance for Week Ending 12.10.2021

The Dow Jones Industrial Average (Dow) finished up 4.02%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) added 3.45%, the Standard & Poor's 500 Index (S&P 500) gained 3.82% and the Nasdaq Composite Index (NASDAQ) tacked on 3.61%. Sector breadth was positive with all 11 of the S&P sector groups closing higher. The Technology sector (+5.98%) led the gains followed by Energy (+3.69%) and Consumer Staples (+3.54%).

Index*	Closing Price 12/10/2021	Percentage Change for Week Ending 12/10/2021	Year-to-Date Percentage Change Through 12/10/2021
Dow	35970.99	+4.02%	+17.53%
Wilshire 5000	47962.05	+3.45%	+21.56%
S&P 500	4712.02	+3.82%	+25.45%
Nasdaq	15630.60	+3.61%	+21.28%

Market Observations: 12/6/21– 12/10/21

The major market indices finished the week broadly higher with the S&P 500 closing at a new all-time high. Last week's gains in the S&P have erased all of the Omicron-induced losses that followed the Thanksgiving holiday. While markets have rebounded, uncertainties around the new variant remain and still pose a risk to the global economic outlook. The focal point of last week's data calendar was Friday's report on consumer inflation. The Labor Department reported that the Consumer Price Index rose by a 6.8% year-over-year pace during November, the highest level since 1982 and the sixth straight month in which inflation topped 5%. Energy was a big driver of inflation in November, however, the recent slump in oil and the collapse in natural gas prices may mean that energy will probably become a drag in the months ahead.

The elevated pace of inflation is likely to force the Fed's hand at this week's FOMC meeting. While Fed officials have been locked in their traditional 10-day blackout period ahead of the Fed meeting, Fed Chair Powell recently said central bank officials should weigh removing pandemic support at a faster pace. Powell also expressed concerns about high prices that were viewed as a 'hawkish pivot' by financial markets and suggested a sooner-than-expected increases in interest rates. According to Bloomberg's World Interest Rate Probability function, two 25 basis points rate hikes are currently being discounted by the Fed Funds Futures markets, with the first expected in June.

In other economic news, the Labor Department reported that initial claims for unemployment benefits fell to 184K, the lowest level in 52 years. Initial claims, which are viewed as a proxy for layoffs, have been steadily declining this year as employers remain reluctant to lay off workers while jobs are plentiful, consumer demand is high and the pool of prospective workers remains lower than before the pandemic.

On the pandemic front, investors appeared to be betting that the new Covid-19 strain may cause milder illness than initially feared, after White House Chief Medical Advisor Dr. Anthony Fauci said that the initial data on the variant is "encouraging" and that Omicron infections are "almost certainly" not more severe than those caused by the previous Delta variant. Fauci did hedge himself by saying that more information is still needed to fully understand the variant. British drug maker GlaxoSmithKline gave investors a confidence boost after saying that its monoclonal antibodies treatment is effective against all strains of the omicron variant, based on new data. In addition, Pfizer announced that three doses of its Pfizer-BioNTech vaccine "neutralize" the Omicron variant, while noting that two doses "may not be sufficient to protect against infection" with Omicron.

Bullish Narrative Intact: As we look forward, our positive view on the equity market remains intact. While volatility is likely to remain elevated and the pace of gains will probably slow in the year ahead, we feel the macro environment will remain supportive and should continue to provide a sturdy backbone for additional upside. The US economy remains in good health and growth in the quarters ahead is expected to remain elevated. The US consumer is in good shape and savings rates remain above pre-pandemic levels, suggesting that as consumers become more comfortable with the economic recovery, pent up demand will be unleashed. Earnings expectations also suggest solid forward growth. Based on consensus expectations from Bloomberg, earnings are forecast to grow by almost 48 percent this year followed by 8 percent growth in 2022 and just under 10% in 2023. While seasonality could act as a tailwind in the months ahead, a period of consolidation cannot be ruled out. However, if we were to see a drawdown in prices, we would view it as an opportunity to increase equity exposure.

The Week Ahead: The focal point for the week ahead will be the two-day FOMC meeting which is scheduled to kick-off on Tuesday. With inflation jumping to a near four decade high, policymakers are likely to announce an acceleration in their tapering efforts. In early November the Fed announce it would begin paring back its quantitative easing program by $15 billion dollars per month. Expectations are for the Fed to double the level of tapering, a pace that would put an end to the program in March 2022. Away from the Fed meeting, it will be a busy week for data releases. Reports of interest include; the November producer price index, November retail sales, November housing starts, jobless claims, and the Markit manufacturing PMI for December. Alongside that, the continued spread of the Omicron variant will remain front and center as we await further evidence on its relative severity compared to other variants, as well as how much more transmissible it is.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.