December 20, 2021

Weekly Viewpoint

Stocks Slump on Vaccine and Rate Worries

Performance for Week Ending 12.17.2021

The Dow Jones Industrial Average (Dow) finished off 1.68%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) lost 1.95%, the Standard & Poor's 500 Index (S&P 500) slumped 1.94% and the Nasdaq Composite Index (NASDAQ) dipped 2.95%. Sector breadth was mixed with seven S&P sector groups closing lower and four finishing higher. The Energy sector (-5.09%) was the biggest lower while Healthcare (+2.45%) was the biggest gainer.

Index*	Closing Price 12/17/2021	Percentage Change for Week Ending 12/17/2021	Year-to-Date Percentage Change Through 12/17/2021
Dow	35365.44	-1.68%	+15.55%
Wilshire 5000	47028.32	-1.95%	+19.19%
S&P 500	4620.64	-1.94%	+23.02%
Nasdaq	15169.68	-2.95%	+17.70%

Market Observations: 12/13/21– 12/17/21

The major market indices finished the week lower on renewed fears over the economic impact of the recent surge in Covid cases, a 'hawkish' shift in monetary policy by the Federal Reserve (Fed), and growing signs elevated inflation levels will be stickier than originally estimated. The S&P has now fallen in three of the past four weeks.

Global central banks were in focus last week with many, including the Fed, beginning to take steps or at least set the stage for removing pandemic era monetary policies. As expected, the Fed signaled a more aggressive unwinding of its monthly bond buying and forecast multiple rate hikes next year. The moves come as the central bank is grappling with the highest levels of inflation in nearly four decades.

At the after meeting press conference, Fed Chairman Powell said that the labor market is not fully recovered, pointing to a sluggish rebound in labor force participation, but said it was still appropriate to roll back some of the Fed's pandemic-era policies. According to Bloomberg's World Interest Rate Probability tool, investors are fully pricing in the first 25 basis point (bps) rate hike at the June FOMC meeting followed by a second at the September meeting. As of Friday, there was a 71% probability of a third hike in December.

In other central bank news, the Bank of England surprised with its first rate hike since the pandemic began, lifting borrowing costs 15 bps to 0.25%. Norway's central bank raised its key rate 25 bps to 0.5% and flagged another hike in March. The European Central Bank said it would begin to scale back its bond-buying in response to soaring inflation, but committed to continue asset purchases for at least 10 months and ruled out raising interest rates next year. The different approaches these central banks are taking are based on their country's economic situation and levels of inflationary pressure, while at the same time trying not to derail their pandemic recoveries.

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 over 47 percent this year followed by almost 9 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: With a relatively light data calendar and few events for investors to keep an eye on during the holiday shortened week, the main focus will likely be on the continued spread of the Omicron variant as countries move to ramp up restrictions, as well as what that could mean for the recovery and economic policy into 2022. Data reports of interest include; November leading economic indicators, December consumer confidence from the Conference Board, November existing home sales, November durable goods orders, and the final reading of the University of Michigan sentiment index.

The next edition of the *Weekly Viewpoint* will be published on January 10 – Happy Holidays!

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.

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