Market Commentary

For the week of December 20th, 2021

The Markets

Returns Through 12/17/21	WTD	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials (TR)	-1.67	17.71	18.88	16.97	14.80
NASDAQ Composite (PR)	-2.94	18.45	19.61	32.11	23.96
S&P 500 (TR)	-1.91	24.73	25.91	24.14	17.55
Barclays US Agg Bond (TR)	0.35	-1.33	-1.04	5.12	3.84
MSCI EAFE (TR)	-0.46	8.49	8.85	`12.01	9.21

Observations

- U.S. equities moved lower this week as indicated by the S&P 500 which was down -1.91% on the week.
- In the U.S., smaller sized companies outperformed their larger-sized counterparts, as the Russell 2000 index decreased by -1.68% on the week.
- International stocks as measured by the MSCI EAFE were negative on the week, down -0.46%, outperforming domestic stocks.
- Emerging market stocks were negative on the week with the MSCI EM down -1.76%.
- U.S. investment grade bonds were positive last week with the Bloomberg Barclays U.S. Aggregate Bond index up +0.35%.

Data Obtained from Bloomberg as of 12/17/2021

Economic Review

• The Producer Price Index (PPI) for the month of November increased by +0.8% which was above the expected increase of +0.5%.
• Retail sales for the month of November came in below expectations, the actual increase on a month-over month basis was +0.3% compared to the estimate of +0.8%.
• Housing Starts for the month of November well outpaced the estimate among economists; the actual increase was +11.8% whereas the expectation was an increase of 3.2%.

INSIGHT: As inflationary pressures continue to persist, Chairman Jerome Powell and the Federal Reserve (the Fed) announced last week that they would double the taper of their bond buying program from $15 billion a month to the new pace of $30 billion a month. With this added information the market seems to be pricing in multiple rate hikes for 2022. However, inflationary concerns and the threat of higher rates have not yet deterred consumers, retail sales increased for the fourth month in a row on the back of strong seasonal spending. Although we received lackluster Black Friday data, this does not worry us too much as it is most likely since Americans started shopping for the holidays earlier than usual this year amid fears of supply constraints and the possibility of delays in deliveries. Housing construction saw sharp gains, posting the largest monthly gain in eight months. Increases were broad based as new construction of both single and multi-family homes posted doubledigit percentage gains.

A Look Forward

• The Conference Board Consumer Confidence Index will be released on Wednesday, the expectation is for the index to increase slightly to 110.8 from the previous reading of 109.5.
• Personal Income for the month of November will be released on Thursday, economists are expecting income to increase by +0.4%, compared the previous month's increase of +0.5%.
• The Personal Consumption Expenditure (PCE) will be announced on Thursday, the consensus estimate is for headline PCE to increase +0.6% on a month-over-month basis.

INSIGHT: Consumer confidence indexes can be volatile in the short term; however, they are important to look at as consumers tend to tailor their spending as it relates to their outlook of the economy. Therefore, we would expect personal spending numbers received on Thursday to trend similarly to the consumer confidence reading. The Fed signaled this week what many market participants already knew: Inflation is here to stay, at least for a while. As a result, the Fed announced plans to double the pace of tapering, which likely means the end of asset purchases by early March. Since this announcement by Chairman Powell the market has been highly volatile with multiple larger swings in either direction.

BY THE NUMBERS

REALLY LOW – Inflation, as measured by the "Consumer Price Index" (CPI), was up +1.4% for 2020. For the decade of the 2010s (1/01/2010 through 12/31/2019), inflation was up just +1.8% per year, the lowest decade of inflation in the USA since the 1930s. By comparison, the decade of the 1970s (1/01/1970 through 12/31/1979) suffered +7.4% annual inflation (source: Department of Labor).

STOCKS AND HIGH INFLATION – In the last 70 years (1951-2020), inflation as measured by the "Consumer Price Index" (CPI) has been at least +5% in 12 different years, most recently in 1990. The S&P 500 has been equally split over the 12 high-inflation years, advancing in 6 years, and falling in 6 years (on a total return basis). The average return for the S&P 500 over all 12 years is a gain of just +3.2% (total return) (source: BTN Research).

PANDEMIC COST – The average cost of care for an individual infected with the COVID-19 virus who has insurance coverage and required hospitalization is $29,000. That average cost soars to $156,000 if the patient required a ventilator and needed treatment in an intensive care unit (source: FAIR Health).

WHEN WILL THEY SPEND IT? – An estimated $3.3 trillion of additional cash has been accumulated in bank accounts by American households since the beginning of the pandemic, i.e., cash that would have previously been spent (and not saved) if the pandemic had not occurred (source: Longview Economics).

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