WEEKLY MARKET UPDATE, DECEMBER 13, 2021

GENERAL MARKET NEWS

- The yield curve steepened last week, supported by positive news surrounding the Omicron variant and slightly faster-than-expected inflation data. On the short end of the curve, the U.S. 2-year Treasury saw yields pick up 6.9 basis points (bps) after opening the week at 0.59 percent. The back half of the curve also steepened 20 bps as yields on the 30-year Treasury moved from 1.68 percent to 1.88 percent. The U.S. 10-year Treasury saw a pickup of 13.1 bps.

- Encouraging news regarding the Omicron variant led to a reversal of the prior week's sell-off. News from South Africa's Department of Health cited milder symptoms for the Omicron variant than the Delta variant. This was followed by a preliminary study from Pfizer, which showed that its booster provides protection against Omicron. Global markets rallied on this news and were supported further by a 6.8 percent year-over-year increase in inflation for the month of November—the highest consumer inflation print in the U.S. since June 1982. The combination of these stories drove investors to purchase stocks, which had fallen due to concerns related to the new coronavirus variant, offering returns to help combat inflation. The Dow Jones Industrial Average faired best of the three major U.S. averages last week. We also saw a noticeable recovery in some of the FAAMG names, as Facebook (FB), Apple (AAPL), Microsoft (MSFT), and Google (GOOG/GOOGL) were all up at least 4.23 percent (with Apple up 10.88 percent). While the swift bounce back is a positive sign, we continue to expect volatility as additional COVID-19 news comes out.

- The Conference Board Consumer Confidence Index for November was released on Tuesday. Confidence declined by more than expected, as the index fell from a downwardly revised 111.6 in October to 109.5 against calls for a more modest drop to 110.9. This decline, which brought the index back in line with September's 109.8 result, signals continued consumer unease. Although confidence remains well above the lockdown-induced lows we saw last year, rising medical risks and concerns about inflation have challenged consumer sentiment over the past few months. The discovery of the Omicron variant of the coronavirus in November likely contributed to the slightly larger-than-expected decline in confidence. Historically, improving confidence has helped support faster consumer spending growth, so the recent declines are worth monitoring. Nonetheless, consumer spending growth has remained strong despite declining confidence levels, as pent-up demand continues to power spending growth.

• Wednesday saw the release of the Institute for Supply Management (ISM) Manufacturing index for November. This widely followed measure of manufacturer confidence improved, rising from 60.8 in October to 61.1 against forecasts for 61.2. This is a diffusion index, where values above 50 indicate expansion, so the improvement was an encouraging sign that the manufacturing industry recovery continued to gain momentum. This strong result marks a seven-month high for the index, which has remained in expansionary territory since June 2020. Manufacturing confidence has been supported by high levels of buyer demand throughout the year, but tangled supply chains and high prices remain a headwind. The index improvement was driven in part by increased hiring growth, as manufacturers continue to spend and invest in their businesses to meet high levels of buyer demand.

• On Friday, the November employment report was released. The report showed that headline job growth slowed notably, with only 210,000 jobs added against forecasts for 550,000. While the September and October job reports were revised upward by 82,000 jobs, the headline job number for November was disappointing after a hiring surge in October. With that being said, the underlying data showed more encouraging results, as the unemployment rate fell from 4.6 percent in October to 4.2 percent against calls for a more modest decline to 4.5 percent. The monthly job report consists of two surveys, one of employers and the other of households. The headline job number comes from the employer report, while the unemployment rate comes from the household survey. The household survey in November showed a notable increase in hiring, which helps calm concerns about the slowdown in headline job growth.

• We finished the week with Friday's release of the ISM Services index for November. This measure of service sector confidence improved by more than expected, increasing from 66.7 in October to a record-high 69.1 against calls for a decline to 65. This signals continued high levels of service sector confidence. Like the ISM Manufacturing index, this is a diffusion index where values above 50 indicate growth. The better-than-expected result was driven by high levels of consumer demand, as current activity and new orders showed improvement. The strong results were widespread, with all 18 service industry sectors reporting growth. Historically, high levels of business confidence have supported additional business spending, so this result bodes well for business spending during the month.

WHAT TO LOOK FORWARD TO

On Tuesday, the November Producer Price Index report is set for release. Producer prices are expected to increase 0.5 percent, which would be a modest decline from the 0.6 percent increase we saw in October. On a year-over-year basis, producer prices are expected to rise 9.2 percent, up from the 8.6 percent year-over-year growth we saw in October. Core producer prices, which remove the impact of volatile food and energy prices, are expected to increase 0.4 percent during the month and 6.8 percent on a year-over-year basis. These results would be in line with October's core producer price growth. Both consumer and producer prices have seen notable upward pressure throughout the course of this year. Improvements on the medical front allowed for a surge in spending, while supply chains remained constrained due to the uneven nature of the global economic recovery. Looking forward, falling energy prices in December should help mitigate some inflationary pressure.

On Wednesday, the November retail sales report is scheduled for release. Economists expect to see retail sales increase 0.8 percent during the month, which would represent a solid month of spending growth following a 1.7 percent increase in October. Core retail sales, which strip out the impact of volatile auto and gas sales, are also expected to increase 0.8 percent. If estimates hold, this would mark four consecutive months with retail sales growth, which is impressive given rising prices and lowered levels of consumer confidence within that time period. High levels of savings since the start of the pandemic, combined with pent-up consumer demand, have continued to power spending growth throughout the fall despite headwinds. Consumer spending growth accounts for the majority of U.S. economic activity, so any further increase from November would be a positive sign for the pace of recovery.

Wednesday will also see the release of the National Association of Home Builders Housing Market Index for December. This measure of home builder confidence is set to increase from 83 in November to 84 in December. This is a diffusion index, where values above 50 indicate expansion, so any increase would be a sign of faster growth for new home construction during the month. November's result marked a six-month high for the index. If estimates hold, this would bring home builder sentiment to its highest level since February of this year. Home builder confidence has been well supported throughout the year as high levels of home buyer demand, coupled with a lack of available homes for sale, have given home builders confidence that newly constructed homes will be quickly purchased.

The third major release on Wednesday will be the rate decision from the Federal Reserve (Fed)'s December meeting. The Fed cut interest rates to virtually zero at the start of the pandemic, and economists do not expect any rate changes at this meeting. Instead, the focus will be on the Fed's plans to taper secondary market asset purchases during the month. The Fed had previously been purchasing $120 billion per month in Treasury and mortgage-backed securities throughout much of the pandemic. But it announced a gradual tapering of purchases at its November meeting. The original plan called for a $15 billion decline in purchases in November, with additional, similar declines expected in the following months. Since then, comments from various Fed members have indicated that the central bank is considering increasing the pace of tapering in an attempt to accelerate the normalization of monetary policy. Given the high levels of inflationary pressure throughout the economy and the improvements that we've seen for the labor market this year, economists are expecting a far more hawkish Fed in 2022, and the December meeting will likely set the tone for the year ahead.

On Thursday, the November housing starts and building permits reports are set to be released. These measures of new home construction are both expected to show growth during the month. Starts are expected to increase 3.3 percent, while permits are set to rise 0.4 percent. Both starts and permits can be volatile on a month-to-month basis, but home builder sentiment surged in November, which is expected to support faster construction. As previously noted, a lack of inventory of available homes for sale and high levels of home buyer demand have helped support new home construction throughout the year, and further construction growth is expected in the months ahead. Home builder backlogs increased in October, while prospective home buyer foot traffic hit a six-month high. We should continue to see strong levels of new home construction as we head into the end of the year.

We'll finish the week with Thursday's release of the November industrial production report. Industrial production is set to increase 0.7 percent during the month, following a 1.6 percent increase in October. October's strong result was a rebound following a weather-driven slump in production in September, so the anticipated slowdown in growth in November is understandable. Industrial production has now reached pre-pandemic levels, and further improvements in November would be a positive sign for the manufacturing industry. Manufacturing output is set to increase 0.6 percent, down from the 1.2 percent growth in October. As was the case with overall industrial production, manufacturing production declined in September due to the impact from Hurricane Ida before rebounding in October.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	3.85%	3.23%	27.16%	30.47%
Nasdaq Composite	3.62%	0.62%	22.03%	27.10%
DJIA	4.05%	4.45%	19.71%	21.96%
MSCI EAFE	2.44%	2.98%	8.99%	12.05%
MSCI Emerging Markets	1.15%	2.23%	–2.20%	0.58%
Russell 2000	2.45%	0.62%	13.00%	16.84%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.39%	–1.67%	–1.40%
U.S. Treasury	–0.57%	–2.38%	–2.41%
U.S. Mortgages	–0.23%	–1.18%	–0.91%
Municipal Bond	0.05%	1.40%	1.65%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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