December 13, 2021

Beacon Weekly Investment Insights

Quite a positive week for the major equity indices following the prior week's brief sell-off. Clearly Monday's rally was driven by the preliminary indications that the new COVID -19 variant, Omicron, appears to be less potent as opposed to the Delta variant. This of course cools any fears of new shut-down requirements and economic disruption. In Europe and Asia, we have seen some of these measures which limit travel, dining, and shopping and other activities ahead of the holiday season. At least for now, that scenario does not appear likely in the US, and investors cheered the news. Also, as we have pointed out in many of our writings, vaccines and treatment options have made a world of difference in how COVID is viewed.

On the back of this positive health news, we had a number of economic data points that continue to support our positive outlook for the US economy. On Tuesday, October's trade deficit figures narrowed sharply driven by a sharp increase in exports. Goods exports rose 11.1% led by food, feed, and beverages, up $2.1 billion, crude oil exports up $1.2 billion, as US refineries came back online after being damaged by Hurricane Ida, and automobile exports up $1.5 billion, an early indication that idled plants are getting back to producing. Services exports only grew 1.6% as the pandemic continues to hold back tourism.

The labor market also continues to show strength. Coming off the prior week when the unemployment rate declined to 4.2%, first time claims for unemployment benefits fell to 184,000, the lowest level since 1969. Some seasonal factors such as mild weather could have impacted the number especially in industries like construction. Most economists and strategists expect the labor market to remain tight, especially given the high number of job openings. Workers also are quitting current jobs at an elevated rate of about 4.2 million in October which some are labelling as "America's Great Resignation". According to a US Labor Department report released on Wednesday, there are over 11 million job openings nationwide. This equates to about two unemployed workers for every three job openings.

Finally on Friday the much anticipated Consumer Price Index was released, and showed a 0.8% month over month gain and a 6.8% year over year gain for the month of November. The 6.8% gain is the fastest pace since 1982 and the sixth consecutive month where prices have risen in excess of 5%. Dissecting the figures reveals some of the supply strain stress on the economy, such as new car prices up 11.1%, as well as elevated prices for appliances and furniture. Restaurants, especially fast food, showed an increase of 7.9% reflecting not only the pass through cost of agriculture commodities, but also the increased labor costs. As we have written in previous pieces, we expect inflation to moderate over the coming quarters as supply chain issues decline, the base effect of low 2020 prices subsides, and a cooling of the pandemic related elevated consumer demand.

Although these high numbers were expected, they still can be quite shocking especially when you see the highest levels of price increases for multiple decades. This will put a larger focus on the Federal Reserve's meeting scheduled for next week as we hear their proposed plans to taper their current asset purchase program. Chairman Powell already indicated that the original plan to reduce purchases by $15 billion per month would likely be accelerated to potentially $30 billion per month. This will also set the stage for the potential timing of interest rate increases as the year progresses.

As we look to the current week, we will focus on the Federal Reserve Open Market Committee meeting which concludes on Wednesday as an important gauge for US monetary policy. Additionally, central banks from around the world including the UK, Eurozone (ECB), and the Bank of Japan will all remark this week. We will also have inflation data from the Producer Price Index, to be released on Tuesday, housing starts, building permits, and industrial production figures on Wednesday. Thursday, we will have the Markit manufacturing and services purchasing managers surveys.

Market Scorecard:	12/10/2021	YTD Price Change
Dow Jones Industrial Average	35,970.99	17.53%
S&P 500 Index	4,712.02	25.45%
NASDAQ Composite	15,630.60	21.28%
Russell 1000 Growth Index	3,069.54	26.43%
Russell 1000 Value Index	1,618.49	19.92%
Russell 2000 Small Cap Index	2,211.81	11.99%
MSCI EAFE Index	2,289.62	6.62%
US 10 Year Treasury Yield	1.48%	56 basis points
WTI Crude Oil	$71.67	47.71%
Gold $/Oz.	$1,782.84	(5.76%)

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