

## Beacon Weekly Investment Insights

Last week started with a market rally following the sharp selloff during the prior week as the omicron variant reared its ugly head. Markets followed a whip-saw pattern throughout the week as investors weighed the Covid uncertainty against a fundamentally strong economy. The volatile week ended with S&P 500 down 1.2%, Dow Jones Industrial Average losing 0.9%, and Nasdaq falling by 2.6% for the week. Despite the losses, all three indices are up strongly year-to-date, as indicated in the Market Scorecard below.

In order to slow the spread of the Coronavirus, the Biden administration tightened travel rules to require a Covid test on all incoming international flights within 24 hours of departure and to extend mask mandates on all domestic flights and public transportation through March 18. Additionally, the White House plan focuses on booster shots and home testing and does not include any shutdowns or lockdowns similar to some countries in Europe that could significantly slow the economy.

CDC changed its language on booster shots to say all adults “should” get a vaccine booster from the earlier language that said they “may” get the shot. Public health officials are worried that the highly transmissible variant could exacerbate a surge in infections during the winter months. It will take a couple of weeks to fully study the new variant and how much the existing vaccine formulas protect against omicron.

Fed Chair Powell and Treasury Secretary Yellen testified in front of Congress last week. While Powell acknowledged that the omicron variant poses downside risk to the economy, he stated that the central bank will discuss speeding up bond buying tapering during their December meeting to a number that is faster than the \$15 billion a month scheduled reduction that was announced last month. Stronger economy and higher inflationary pressures were the main reasons cited for the hawkish tilt. In fact, Powell acknowledged that it is time to retire the word “transitory” in describing inflation, which has been under constant interrogation.

U.S. Congress reached a bipartisan deal just ahead of the Friday deadline on a government bill to fund the federal government at current levels through February 18. A shutdown could have led to furloughs of thousands of federal employees and the suspension of certain government services, not to mention the possibility of high volatility in the financial markets. Lawmakers will now try to raise or suspend the U.S. debt ceiling by mid-month and pass the \$1.75 trillion Build Back Better Act by the end of the year.

We had a trifecta of reports in the labor markets. Private payrolls increased by 534,000 for November, better than the estimate of 506,000. Leisure and hospitality sectors led the job gains. Jobless claims for the prior week totaled 222,000 vs the estimate of 240,000 and continuing claims dropped below 2 million for the first time since the early days of the pandemic. Lastly, the all-important employment report on Friday showed that the unemployment rate fell notably to 4.2% from 4.6% even though nonfarm payrolls increased by less than expected. The broader U-6 measure which includes underemployed and discouraged workers in addition to the unemployed also tumbled to 7.8% from 8.3%, painting an optimistic picture in the labor markets.

Foot traffic at retail stores during Black Friday was up 48% from a year ago during the height of the pandemic, although it is still down 28% from the 2019 levels as shoppers spread out their holiday purchases amid Covid and supply chain concerns. According to National Retail Federation, total holiday sales during November and December should rise about 10%, which would set a record for year-over-year growth at roughly \$850 billion in new sales.

Home prices rose at an annual rate of 19.5% in September according to closed sales, slightly lower than the 19.8% rate in August. Although the price increases are likely to decelerate, tight inventory and high demand continue to keep the housing market strong. Pending home sales jumped 7.5% in October according to National Association of

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Realtors. The expectations were for sales to be flat. Since signed contracts are a forward-looking indicator of actual closings, we should expect the hot real estate sector to remain hot for a while.

In energy markets, OPEC+ members convened last week to discuss oil production targets amid a possible demand slowdown due to the omicron variant, U.S. release of strategic petroleum reserves and possible re-entry of Iran into the oil markets. The energy alliance ultimately decided to maintain their target increase of 400,000 barrels of output per day. Crude oil prices traded down to \$65 per barrel last week, down from \$84 just a month ago.

This week's economic calendar is light but it includes two of the most watched reports on Friday. The consumer price index (CPI) for November will be published, which is expected to be even higher than October's 6.2% annual rate. The University of Michigan's consumer sentiment report will also be released on Friday and the consensus view is a similar reading to prior month's low reading of 67, as consumers are worried about the short-term spike in inflation. We will also be watching the 3-year, 10-year, and 30-year bond auctions by the Treasury for their impact on borrowing costs.

<b>Market Scorecard:</b>	<b>12/3/2021</b>	<b>YTD Price Change</b>
Dow Jones Industrial Average	34,580.08	12.98%
S&P 500 Index	4,538.43	20.83%
NASDAQ Composite	15,085.47	17.05%
Russell 1000 Growth Index	2,940.60	21.12%
Russell 1000 Value Index	1,573.75	16.61%
Russell 2000 Small Cap Index	2,159.31	9.34%
MSCI EAFE Index	2,235.12	4.08%
US 10 Year Treasury Yield	1.36%	44 basis points
WTI Crude Oil	\$66.26	36.56%
Gold \$/Oz.	\$1,783.90	(5.77%)

 **Beacon Trust** 163 Madison Avenue, Suite 600 | Morristown, NJ 07960 | 973.377.8090 | [BeaconTrust.com](http://BeaconTrust.com)

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