Weekly Market Update

General Market News

- The yield curve moved modestly last week, with slight flattening on the back half as future growth projections continued to come down. The increased rate of tapering by the Federal Open Market Committee on Wednesday did little to surprise bond markets; this doubling was widely expected and the short end of the curve was not impacted by the news. The 2-year yield curve fell 1.3 basis points (bps), closing the week at 0.642 percent. The U.S. 10-year Treasury gave up 8 bps, closing at 1.402 percent. The U.S. 30-year gave up 6.5 bps, closing at 1.817 percent.
- U.S. equity markets were down last week as the Federal Reserve (Fed)'s decision to double the pace at which it reduced its asset purchases took some steam out of the market and high-flying growth names. Wednesday's meeting saw Fed Chairman Jerome Powell focus on the price control mandate amid historically elevated inflationary data. This move represents a shift from the Fed—which had been primarily focused on its second mandate of full employment—and led investors to believe that this was a post-pandemic inflection point because the Fed will be less accommodative toward financial markets going forward. The names that sold off last week included cyclical and growth sectors in energy, consumer discretionary, and technology. The sectors that held up well were those less prone to inflation, such as health care, real estate, utilities, and consumer staples. We will see if this trend will continue as the Build Back Better plan looks to be shelved for the time being.
- On Friday, the Consumer Price Index for November was released. The report showed that consumer prices increased slightly more than expected, rising 0.8 percent against calls for a 0.7 percent increase. On a year-over-year basis, consumer prices rose 6.8 percent in November, which was up from the 6.2 percent year-over-year growth rate in October but in line with economist estimates. This marks the fastest pace in year-over-year headline consumer inflation since 1982 and signals continued high levels of price pressure on consumers. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.5 percent during the month and 4.9 percent year-over-year, which was expected. This report served as a reminder that inflationary pressure remains high throughout the economy, which was one of the factors that drove the Fed to announce tighter monetary policy at its November meeting.
- Friday also saw the release of the preliminary estimate for the University of Michigan consumer sentiment index for December. Sentiment increased to start the month, rising from 67.4 in November to 70.4 to start December against calls for a more modest improvement to 67. The improvement for the headline index was driven by improving consumer views on current economic conditions and future expectations. November marked the lowest level for the index in a decade, so the modest improvement still left the index at potentially concerning levels. Consumer confidence has soured over the past few months, as rising concerns about inflation have weighed on sentiment. With that being said, consumer spending growth has remained strong despite the declining confidence, so rising concerns have not yet derailed the overall economic recovery.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.91	1.25	24.73	26.35
Nasdaq Composite	–2.94	–2.34	18.45	19.69
DJIA	–1.67	2.70	17.71	19.37
MSCI EAFE	–0.46	2.50	8.49	9.35
MSCI Emerging Markets	–1.76	0.44	–3.92	–2.06
Russell 2000	–1.68	–1.07	11.11	11.44

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.04	–1.33	–0.97
U.S. Treasury	–0.09	–1.91	–1.60
U.S. Mortgages	–0.05	–1.01	–0.92
Municipal Bond	0.11	1.47	1.59

Source: Morningstar Direct

What to Look Forward To

Wednesday will see the release of the Conference Board Consumer Confidence survey for December. This widely followed measure of consumer confidence is expected to increase modestly during the month, from 109.5 in November to 110.6 in December. If estimates hold, this would represent a partial rebound for the index after confidence slumped in November. But it would still leave the index well below the high of 128.9 we saw in June. Confidence has declined over the past few months, from summer highs—due in large part to rising concerns about inflation—as well as rising health risks—due to the Delta and Omicron variants. Historically, improving confidence has helped support increased consumer spending growth, so this will continue to be a widely monitored monthly data release due to the importance of consumer spending to the overall economy.

Wednesday will also see the release of the November existing home sales report. Existing home sales are expected to increase 3.3 percent during the month, following a better-than-expected 0.8 percent increase in October. If estimates prove to be accurate, this would bring the pace of existing home sales to their highest level since January and would signal continued strength for the housing market. Home sales growth has picked up notably compared to pre-pandemic levels, as low mortgage rates and shifting home buyer preference for more space due to the pandemic have spurred a surge in sales growth. This year's sales growth has been especially impressive given the lack of existing homes for sale as well as rising prices and mortgage rates. If we do see continued sales growth in November, it would be a reminder that the housing sector remains a highlight of the current economic recovery.

What to Look Forward To (continued)

On Thursday, the preliminary estimate for the November durable goods orders report is set to be released. Durable goods orders are expected to increase 1.8 percent during the month, following a 0.4 percent decline in October. The anticipated rebound in headline orders is partially due to a rebound in volatile commercial aircraft orders. Core durable goods orders, which strip out the impact of transportation orders, are set to increase 0.6 percent following a solid 0.5 percent increase in October. If estimates hold, this would mark nine straight months with core durable goods orders growth. Core durable goods orders are often viewed as a proxy for overall business investment, so this anticipated increase in November would be a positive sign that businesses continued to spend and invest to meet high levels of demand.

We'll finish the week with Thursday's release of the November personal spending and personal income reports. Both personal income and personal spending are expected to increase 0.5 percent during the month. If estimates hold, this would mark nine straight months of personal spending growth. Spending growth throughout much of the year has been supported by improvements on the public health front, which have allowed for an easing of state and local restrictions that supports steady spending growth. Personal income growth has been more volatile this year as shifting federal unemployment and stimulus payments have led to high levels of monthly volatility in average income. With that said, if estimates prove to be accurate, this would mark two consecutive months with rising personal income after the expiration of enhanced unemployment benefits in September caused income to decline.

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