Market in Review

Equity Markets:
The week was choppy and saw growth stocks take a hard hit. The S&P 500 ended the week down 1.9%, while the NASDAQ was down 2.9%. Concern around inflation and related Fed policy led to the downside. Omicron is still being watched by the markets and on Friday, New York saw its highest single-day reporting of COVID cases since the Pandemic began. Early indications point to Omicron not causing illness as severe as other strains of COVID. With the high transmission rate, however, there are still worries that it could slow the economic recovery.

Fixed Income Markets:
The Fed meeting was the major topic of the week. Fed Chair Jerome Powell indicated the Fed will speed up its taper of bond buying and will likely end in the first quarter of 2022. The decision matched market participants' expectations. Some believe the Fed may have made the decision too late; the most recent CPI and PPI readings have been at or near historic highs. Following the taper, the Fed dot plot anticipates three interest rate hikes in 2022. By the end of the year the Fed's target rate will be near 0.75%. The forecasting of raising rates is shifting from an accommodative policy to a tightening policy. The shift in policy is telling the market that the Fed feels they need to intervene to keep inflation under control, and to ensure the economy does not run "too hot". As investors digested the news for the week, there was a run to quality assets. This caused the 10-year Treasury yield to fall to 1.4%. It began the week at 1.49%.

Economic:
On Tuesday, the Producer Price Index reading was announced. It came in at a record high of 9.6% year-over-year. The PPI can be viewed like a wholesale index. This is the price index used for companies that are selling to the end consumer. The cost to produce goods has increased substantially, which could possibly lead to higher costs for the consumer, or reduced profit margin for the producer if the cost increases linger for a long period of time.

Looking Ahead

Equity Markets:
The trading week will be shortened in observance of the Christmas holiday. The equity markets are looking to build some strength going into the final trading days of the year. The markets do not like uncertainty. Now that the Fed has decided on its policy direction, investors can digest it and move forward. During previous rate hikes, equity markets have shown increased volatility over the short run. This is likely to be true for the current policy period, announced last week, which will play out next year. It is important to remember that if you can stomach the volatility, equity markets have historically been a positive asset class when we come out on the other side of rate hikes.

Fixed Income Markets:
With no Fed officials set to speak next week, the markets will not have policy shifts or comments that will affect rates. This week we will see how the fixed income markets move forward after the initial reactions following the Fed policy shift.

Economic:
Next week will be a busy with economic reports. Leading Indicators will start the week off Monday morning. The final read for Q3 GDP will also be released. These two will be in the spotlight but other reports being released include existing home sales, personal income & spending, initial jobless claims, and the Consumer Sentiment Index.