

In this month's recap: Stocks rally as early data suggests the health impact of Omicron was less severe than initially feared.

Monthly Economic Update

Presented by GRAnderson Wealth Management Group, Inc., January 2022

U.S. Markets

Stocks rallied in December as early data suggested that the health impact of the Omicron variant was less severe than initially feared.

The Dow Jones Industrial Average picked up 5.38 percent, while the Standard & Poor's 500 Index gained 4.36 percent. The Nasdaq Composite lagged, climbing 0.69 percent.¹

Omicron Worries

Stocks got off to a volatile start in December as investors worried about Omicron's transmissibility and severity. Markets were also rattled by Fed Chair Jerome Powell's testimony to Congress that the economy was strong enough to allow the Fed to move up its bond purchase taper schedule.

While investors were expecting the Fed's news, Powell's testimony generated added uncertainty over just how sharp and rapid that pivot would be.

Fed Clarity

At its mid-December meeting, the Federal Open Market Committee said that it would quicken its tapering of monthly bond purchases from \$15 billion a month to \$30 billion a month. This acceleration in tapering meant that asset purchases by the Fed would likely end by March 2022.²

The Fed further signaled that it may consider up to three rate hikes, the first of which would likely occur sometime after bond tapering was completed.²

Santa Rally

With the year-end fast approaching and investor sentiment on Omicron's economic impact becoming less fearful, investor attention turned to whether the market would enjoy a "Santa Claus Rally."

The Santa Claus Rally is a seasonal pattern in which the market generally rises in the period following Christmas through the first two trading sessions of the new year. Since 1950, the S&P 500 has gained an average of 1.3 percent during this period and generated positive returns about 67 percent of the time since 1993.³

Cementing a Solid Year

This year, stocks rallied following the holiday but lost some momentum in the final two trading days. Nevertheless, stocks ended the year near all-time highs, cementing a solid year of gains for investors.

Sector Scorecard

All industry sectors posted positive performances last month with gains in Communications Services (+4.51 percent), Consumer Discretionary (+0.24 percent), Consumer Staples (+8.96 percent), Energy (+1.41 percent), Financials (+3.06 percent), Health Care (+9.06 percent), Industrials (+4.55 percent), Materials (+6.57 percent), Real Estate (+9.09 percent), Technology (+3.56 percent), and Utilities (+8.45 percent).⁴

What Investors May Be Talking About in January

In the month ahead, investors are expected to focus on fourth-quarter gross domestic product, scheduled for release on January 28.⁵

The Federal Reserve Bank of Atlanta, which models estimated GDP growth in real-time, said in late December it expects 7.6 percent growth. A strong GDP would confirm expectations of a rebound from the Delta variant-induced slowdown in the third quarter.⁵

Earnings Season

Fourth-quarter corporate earnings season will also kick off in January. According to FactSet, a financial data provider, consensus estimates are for a 20.9 percent growth in corporate earnings.⁶

The extent that earnings disappoint or exceed expectations may drive how markets view current stock price valuation levels.

TIP OF THE MONTH



If you're financing a new car, look for the best interest rate before setting foot in the dealership. It could be to your advantage to take a cash rebate and get a loan elsewhere.

World Markets

Despite higher Omicron infections in Europe and isolated shutdowns in China, the MSCI-EAFE Index advanced 4.99 percent in December.⁷

Major European markets rebounded sharply from November losses, with gains in France (+6.43 percent), Germany (+5.20 percent), and the U.K. (+4.61 percent).⁸

Pacific Rim stocks had less impressive gains. Japan's Nikkei index rose 3.49 percent while Australia's ASX 200 gained 2.60 percent. China's Hang Seng index lost 0.33 percent.⁹

Indicators

Gross Domestic Product: The final reading of GDP growth showed an upward revision to 2.3 percent from its prior estimate of 2.1 percent.¹⁰

Employment: The employment picture was mixed in November. Nonfarm jobs increased by a disappointing 210,000 but the unemployment rate fell to 4.2 percent as almost 600,000 Americans joined the workforce.¹¹

Retail Sales: Retail purchases rose 0.3 percent, which was below expectations. The slight increase lends credence to the idea that October's big jump was partly due to Americans buying early in response to possible inventory shortages.¹²

Industrial Production: Industrial production increased by 0.5 percent, reaching its highest level since January 2019. Manufacturing output was strong, rising 0.7 percent on a solid rebound in the auto sector.¹³

Housing: Housing starts increased 11.8 percent in November, which was above the consensus estimate of 3.0 percent.¹⁴

Existing home sales climbed 1.9 percent from October, though they slipped 2.0 percent from November 2020.¹⁵

New home sales rose 12.4 percent, reaching a seven-month high. Strong demand lifted the median sales price 18.8 percent from a year ago.¹⁶

Consumer Price Index: Consumer prices jumped at a rate not seen in nearly 40 years, rising 0.8% from the previous month and 6.8% from a year ago. It is the sixth consecutive month that inflation has exceeded 5%. Core inflation (excluding the more volatile food and energy prices) came in lower but still posted its sharpest jump since 1991.¹⁷

Durable Goods Orders: Orders of goods designed to last three years or more rose 2.5 percent, driven by a strong increase in commercial aircraft orders.¹⁸

QUOTE OF THE MONTH



“It always seems impossible until it’s done.”

NELSON MANDELA

The Fed

After the two-day December meeting of the Federal Open Market Committee (FOMC), the Fed announced that it would be speeding up the pace of reductions in its monthly bond purchase, from the \$15 billion per month announced in November to \$30 billion per month, effectively ending asset purchases by March 2022. It also signaled that there may be as many as three increases in short-term interest rates in 2022.¹⁹

“In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook,” according to the Fed’s prepared statement.

“The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee’s goals. The Committee’s

assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.”²⁰

MARKET INDEX	Y-T-D CHANGE	December 2021
DJIA	18.73%	5.38%
NASDAQ	21.39%	0.69%
S&P 500	26.89%	4.36%

BOND YIELD	Y-T-D	December 2021
10 YR TREASURY	0.59%	1.51%

Sources: Yahoo Finance, December 31, 2021.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

THE MONTHLY RIDDLE



The English language has a noun with three consecutive double letters in it. The word is 10 letters long, and it describes a job involving math. What is this word?

LAST MONTH'S RIDDLE: You see a large truck stopped just before the underpass of a low bridge. The driver informs you that his truck is 1" higher than the maximum clearance. This is the only road to his destination. What is the easiest way to help him get his truck through the underpass?

ANSWER: Let enough air out of the tires to lower the truck.

Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

Gregory Robert Anderson, CFP®, Gregory@GRAndersonWealth.com, 303.228.3160

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. The information herein has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All market indices discussed are unmanaged and are not illustrative of any particular investment. Indices do not incur management fees, costs, or expenses. Investors cannot invest directly in indices. All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalization in the FTSE Developed Europe Index. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. Established in January 1980, the All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The FTSE TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprising 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting, or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

CITATIONS:

1. WSJ.com, December 31, 2021
2. WSJ.com, December 15, 2021
3. CMEGroup.com, December 26, 2020
4. SectorSpdr.com, December 31, 2021
5. AtlantaFed.org, December 23, 2021
6. FactSet.com, December 2, 2021
7. MSCI.com, December 30, 2021
8. MSCI.com, December 30, 2021
9. MSCI.com, December 30, 2021
10. MarketWatch.com, December 22, 2021
11. WSJ.com, December 3, 2021
12. WSJ.com, December 15, 2021
13. ABCNews.go.com, December 16, 2021

14. Nasdaq.com, December 16, 2021
15. CNBC.com, December 22, 2021
16. Money.USNews.com, December 23, 2021
17. WSJ.com, December 10, 2021
18. Bloomberg.com, December 23, 2021
19. WSJ.com, December 15, 2021
20. FederalReserve.gov, December 15, 2021