Weekly Update

Stocks Buoyant Despite Red-Hot Inflation

December 10, 2021

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The Economy

- U.S. stocks charged higher during the week ending December 10. A hotter-than-expected inflation reading was brushed aside by reports that the new COVID-19 Omicron variant appeared less severe than anticipated. Overall, the equity advance suggests that investors believe the virus is unlikely to derail the global economic recovery as consumers and businesses persevere, adapt and learn to live with the risks.
- U.S. inflation expanded by 6.8% year over year in November—the largest annualized increase since 1982—as measured by the Department of Labor's consumer price index. Robust consumer demand compounded with pandemic-related supply constraints have driven prices higher. The cost of automobiles, gasoline and furniture experienced notable surges during the period. Core inflation (which excludes volatile food and energy prices) accelerated by 4.9% over the same period. The Federal Reserve has been monitoring price pressures to gauge the drawdown pace for its asset purchases and the timing of potential interest-rate hikes.
- Consumer credit advanced by a smaller-than-expected $16.9 billion in October, moderating from a $27.8 billion jump in September—primarily due to escalating inflation and the relentless spread of COVID-19, which caused U.S. consumers to borrow less. Revolving credit (credit cards) rose by 7.8% during the month, while non-revolving credit (car and student loans) grew by 3.7%.
- The number of U.S. job openings (a measure of labor demand) advanced from 10.6 million in September to 11.0 million in October, according to the Department of Labor. Health care, leisure and food services businesses posted the largest increase in job opportunities. The quits rate—which measures employees who leave jobs of their own accord and generally increases as the economy improves—moderated from an all-time high of 4.4 million to 4.1 million for the month, signaling worker confidence in finding new jobs but a slowing in the "great resignation."
- Consumer optimism improved from 67.4 to 70.4 in December, as measured by the University of Michigan's consumer sentiment survey. Stalling U.S. economic growth amid a spike in COVID-19 cases and intensifying inflationary pressures (which translates to higher prices) posed headwinds to optimism.
- The rate of initial jobless claims declined to the lowest level since 1969 during the week ending November 27, falling from 227,000 to 184,000, suggesting a healing labor market.
- Mortgage-purchase applications fell by 5.0% for the week ending December 3, while refinancing applications surged by 9.0%. The average interest rate on a 30-year fixed-rate mortgage decreased to 3.10% from 3.11% in the prior week.

Stocks

- Global equities closed higher for the week. Developed markets led emerging markets.
- U.S. equities started the week on a big up note and generally held their ground through the end of the week. Energy and information technology were the top performers, while utilities and financials lagged. Growth stocks led value stocks and large caps beat small caps.

Bonds

- The 10-year Treasury bond yield increased to 1.49%.
- Global bond markets were in negative territory this week.
- High-yield bonds led, followed by global corporate bonds and global government bonds.

The Numbers as of December 10, 2021	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	2.7%	15.1%	17.8%	743.6
MSCI EAFE ($)	2.7%	6.9%	9.3%	2296.3
MSCI Emerging Mkts ($)	1.9%	-3.4%	-0.6%	1247.7
US & Canadian Equities				
Dow Jones Industrials ($)	4.0%	17.5%	19.9%	35962.3
S&P 500 ($)	3.7%	25.2%	28.2%	4704.1
NASDAQ ($)	3.6%	21.2%	26.0%	15625.5
S&P/ TSX Composite (C$)	1.2%	19.7%	18.6%	20872.4
UK & European Equities				
FTSE All-Share (£)	2.2%	12.9%	11.8%	4146.9
MSCI Europe ex UK (€)	3.3%	19.1%	21.0%	1707.1
Asian Equities				
Topix (¥)	0.9%	9.5%	11.2%	1975.5
Hong Kong Hang Seng ($)	1.0%	-11.9%	-9.1%	23995.7
MSCI Asia Pac. Ex-Japan ($)	2.3%	-3.7%	-0.9%	637.6
Latin American Equities				
MSCI EMF Latin America ($)	2.5%	-13.7%	-12.5%	2116.2
Mexican Bolsa (peso)	1.1%	16.1%	17.5%	51141.0
Brazilian Bovespa (real)	2.4%	-9.6%	-6.5%	107633.3
Commodities ($)				
West Texas Intermediate Spot	7.7%	47.1%	52.6%	71.4
Gold Spot Price	0.2%	-5.9%	-2.6%	1783.5
Global Bond Indices ($)				
Barclays Global Aggregate ($)	-0.2%	-4.5%	-3.7%	533.7
JPMorgan Emerging Mkt Bond	0.5%	-1.5%	-0.3%	920.1
10-Year Yield Change (basis points*)				
US Treasury	14	57	58	1.49%
UK Gilt	-1	55	54	0.74%
German Bund	4	22	26	-0.35%
Japan Govt Bond	0	4	4	0.06%
Canada Govt Bond	4	80	74	1.48%
Currency Returns**				
US$ per euro	0.0%	-7.4%	-6.8%	1.132
Yen per US$	0.5%	9.8%	8.8%	113.42
US$ per £	0.2%	-2.9%	-0.2%	1.327
C$ per US$	-0.9%	0.0%	-0.1%	1.272

Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

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