JANUARY 3, 2022

Weekly Market Update

General Market News

- The yield curve moved modestly higher last week with a majority of the move taking place on the short end of the curve. The 2-year U.S. Treasury yield opened the week at 0.693 percent and closed the week 4.1 basis points (bps) higher at 0.734 percent. The U.S. 10-year Treasury increased 1.9 bps to 1.513 percent. Finally, the 30-year Treasury was flat, opening and closing at 1.905 percent. The front end of the curve rose as more persistent inflation forced it to reduce its asset purchases at a faster clip, and rates could potentially follow if we continue to see lingering, elevated inflation.
- The U.S. equity markets were mixed last week as trends from 2021 started to reverse following the December Federal Open Market Committee (FOMC) meeting. The meeting, which stated the Federal Reserve (Fed) would speed up the rate at which it reduces its asset purchases, led investors to question whether rate hikes would shortly follow the taper, which is expected to end in March. As a result, the Dow Jones Industrial Average and International MSCI EAFE Index began to outperform as communication services, energy, and consumer discretionary struggled. Health care, consumer staples, industrials, and financials started to gain some appetite from investors as high-flying tech and communication services have underperformed after a strong 2020 and 2021.
- There were no major economic data releases last week.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.87	4.48	28.71	28.71
Nasdaq Composite	–0.05	0.74	22.18	22.18
DJIA	1.08	5.53	20.95	20.95
MSCI EAFE	0.89	5.12	11.26	11.26
MSCI Emerging Markets	1.04	1.88	–2.58	–2.58
Russell 2000	0.21	2.23	14.82	14.82

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.26	–1.54	–1.54
U.S. Treasury	–0.51	–2.32	–2.32
U.S. Mortgages	–0.09	–1.04	–1.04
Municipal Bond	0.16	1.52	1.52

Source: Morningstar Direct

What to Look Forward To

On Tuesday, the ISM Manufacturing index for December is set to be released. This widely monitored gauge of manufacturer confidence is expected to decline modestly from 61.1 in November to 60.2 in December. This is a diffusion index, where values above 50 indicate expansion. So, if the estimates hold, this report would signal continued growth for the manufacturing industry despite the anticipated decline. Throughout 2021, manufacturer confidence was supported by the easing of state and local restrictions, which allowed for more factory production. Historically, high manufacturing confidence has supported business investment and faster production growth, so the anticipated strong reading for December would be an encouraging signal. It would demonstrate that manufacturing output has continued to grow, despite the headwinds created by tangled global supply chains and the worsening public health situation.

On Wednesday, the December FOMC meeting minutes are set to be released. The minutes are expected to give economists and investors a closer look into the deliberations from the FOMC's December meeting. At that meeting, the Fed announced it would reduce its secondary market asset purchases by more than expected in the months ahead. This was a signal that the Fed is moving to normalize monetary policy sooner than originally anticipated. While this announcement was widely expected, the minutes should give additional information on the factors contributing to the Fed's change of heart. Looking forward, the Fed is expected to support maximum employment and stable prices. The Fed will also ease

What to Look Forward To (continued)

off the supportive policies put in place to combat the economic impact of the pandemic. We've seen notable progress for the labor market recovery since the expiration of initial lockdowns. As we kick off the new year, high levels of inflationary pressure will likely be the Fed's primary concern.

On Thursday, the November international trade balance report is set to be released. The trade deficit is expected to increase from $67.1 billion in October to $74.1 billion in November. If estimates hold, this result would offset some of the recent decline in the monthly deficit. Still, the monthly deficit would remain well below the record $81.4 billion recorded in September. Throughout the pandemic, this deficit has increased notably, as the uneven global recovery and high consumer demand in the U.S. caused a surge in imports without a similar increase in exports. The previously released advanced estimate of the trade of goods showed that exports fell 2.1 percent in November, while imports increased 4.7 percent. Looking ahead, the continued global economic recovery is expected to lead to further normalization of trade. Still, we'll likely need continued progress on the medical front before seeing a full return to normal trade levels.

Thursday will also see the release of the ISM Services index for December. This index, which monitors service sector confidence, is expected to decline modestly from a record high of 69.1 in November to 67.1 in December. As was the case with the manufacturing index, this is a diffusion index where values above 50 indicate growth, so the anticipated result would be a good sign. Service sector confidence spent much of 2021 at or near record highs. Contributing factors were the pent-up consumer demand and successful reopening efforts that led to a surge in service spending. The service sector accounts for the vast majority of economic activity in the country. Throughout 2021, strong levels of confidence and spending in this sector helped drive the overall economic recovery.

We'll finish the week with Friday's release of the December employment report. Economists expect to see 400,000 jobs added during the month, a solid increase from the 210,000 jobs added in November. Earlier in the year, hiring increased notably, due to the improving medical statistics and easing restrictions, as well as pent-up consumer demand. By year-end, however, the pace of improvements slowed a bit. With that said, if estimates hold, this report would mark 12 consecutive months with job growth, signaling further recovery for the labor market. The underlying data is also expected to show some improvements. The unemployment rate is set to fall from 4.2 percent in November to 4.1 percent in December. This would mark a decline from the December 2020 unemployment rate of 6.7 percent, highlighting the progress made in getting folks back to work in 2021.

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