

ECONOMIC & MARKET INSIGHTS

An Executive Summary for November 2021

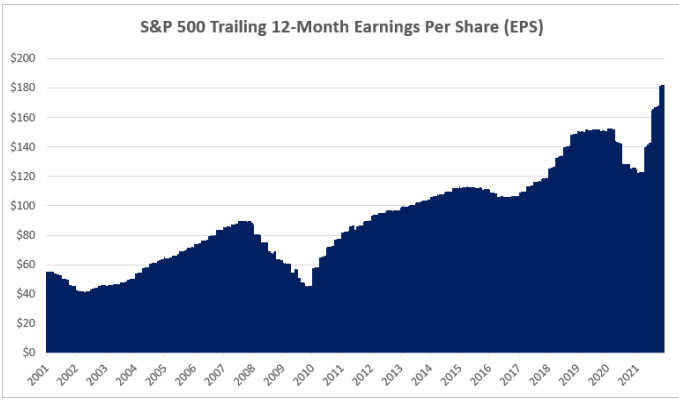
November proved to be a shaky month for markets as investors reacted to the news of rising coronavirus concerns caused by the emerging Omicron variant. The risk-off playbook was quickly put into action and high-quality bonds rallied while equity market gains from early in the month were pared back. Although much is still unknown about the new variant, early indications suggest that while it may be more contagious than prior variants (including Delta), it may not be any more severe. Vaccines are also most likely still effective to some extent against the new variant which should help to soften the impact. While impossible to know for certain, it appears unlikely that the Omicron and any possible future variants would cause the same degree of panic and reaction in the markets as the initial scare in early 2020.

Recent inflation data and Federal Reserve (Fed) policy have fueled additional volatility. The U.S. Consumer Price Index (CPI) rose 6.2% year-over-year, the highest rate since 1990. The magnitude and breadth of recent inflation data have led to more consensus expectations that higher inflation could extend longer than initially expected. In particular, increases in labor costs are less likely to be transient as it's hard to lower wages once they rise. Higher inflation has also altered the Fed's path forward. This has been reinforced by strong economic data. The end of November also produced the lowest weekly jobless claims number since the late 1960s. Reappointed Fed Chair Powell recently laid out a plan to taper monthly bond purchases from \$120 billion to \$0 by mid-2022, with the potential to accelerate the timing based on updated data. Fed messaging initially pushed yields higher, but recent Omicron worries have somewhat offset upward rate pressures, at least temporarily.

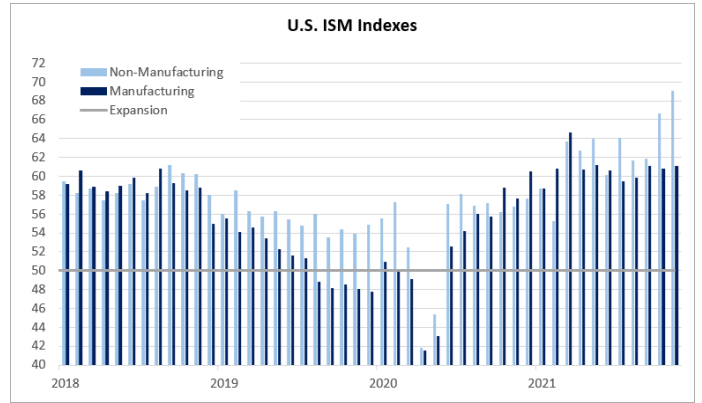
European economic data was more mixed and was heavily dependent on the impact of the fourth wave of coronavirus infections. Rising cases in select nations, such as Austria, Belgium, and Germany, have dampened the recovery while other countries, such as France and the U.K. have fared better. Despite the mixed recovery, Eurozone PMI data recovered following three consecutive months of declines. Japan's new Prime Minister and government recently approved a record, near-USD 500 billion stimulus package that should help support the economy. Notably, continued easing at a time when other developed nations are contemplating tapering and/or are raising rates contributed to the yen sliding to multiyear lows. Within emerging markets, recent Chinese data was better than expected fueled by strong export demand from the U.S. and Europe. Retail sales in China also broke new records, demonstrating strength in that sector. That said, regulatory overhangs and global tensions have still held back the performance of Chinese risk-assets to a great extent in 2021.

A flight-to-safety following alarming Omicron headlines negatively impacted equities and credit-sensitive bonds, while simultaneously supporting government and municipal bonds. Within equities, U.S. stocks fell but to a lesser extent than international markets. This only served to extend U.S. equity market leadership. Within U.S. equities, technology and consumer discretionary outperformed, contributing to growth outpacing value. Large-caps were negative but maintained a lead over small-caps. Emerging market equities remained a laggard globally, reflecting disappointing performance from Chinese equities. While developed international equities are positive year-to-date, emerging market equities are now in negative territory. In fixed income, falling yields helped support government bonds, while gains from duration were offset by widening spreads for credit sensitive corporates. Bond returns are underwhelming year-to-date, reflecting rising yields across many developed nations.

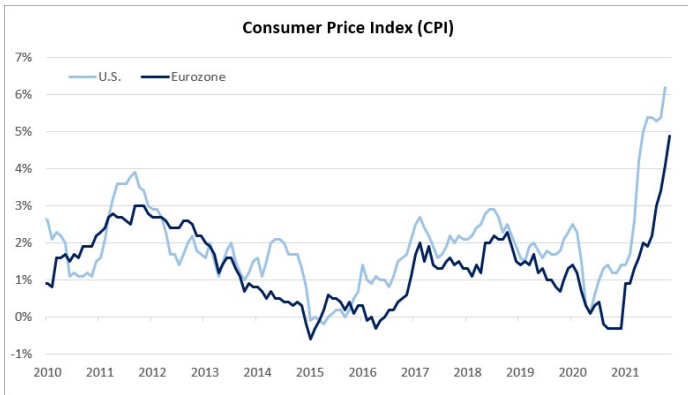
2021 has been a year full of surprises despite the world making extensive progress in areas of public health, and the improved economic recovery from the depths of 2020. Economic growth is likely to remain positive going forward, although there will certainly be many bumps along the way. While it may still be present to varying degrees, monetary policy is likely to be less of a driver of growth moving forward, as more economies can stand on their own footing. Nonetheless, the future is increasingly hard to predict, and prudence should be employed in diversified investment portfolios.



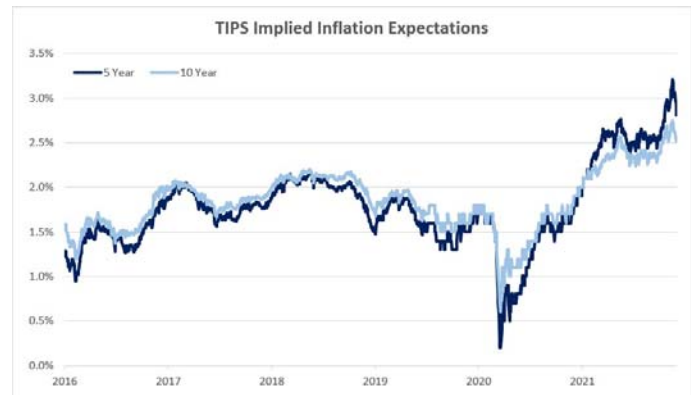
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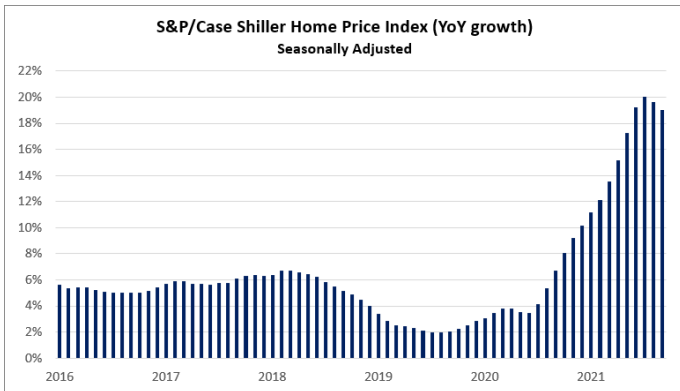
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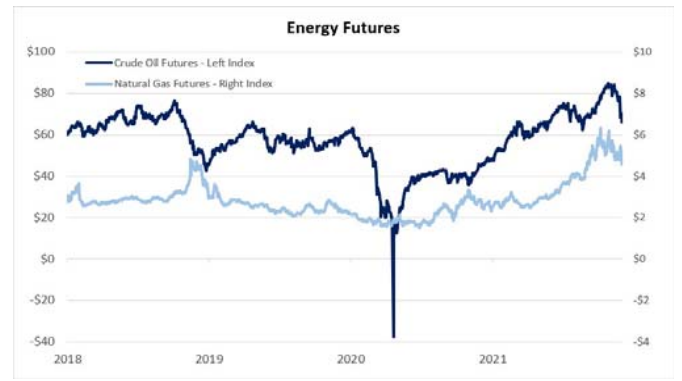
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