Weekly Market Guide

Short-Term Summary:

Volatility has continued with now 11 of the 18 trading days since Thanksgiving (when the Omicron news broke) posting a greater than 1% move in either direction. After closing just below its 50-day moving average on Monday, the S&P 500 bounced back on very strong 85% advancing volume yesterday. Leadership was driven by Energy, Technology, Consumer Discretionary, Financials, and Industrials- all of which were up over 2% on the day. Conversely, the more defensive Utilities and Consumer Staples sectors, who had been gaining relative strength in recent weeks, were down on the day. In fact, the equally-weighted Consumer Discretionary sector had its strongest day of outperformance vs the Consumer Staples in over a year. Internal strength following volatility, particularly from technical support, bodes well for overall trends.

The internal market improvement yesterday also lines up with some optimism over the Omicron variant, in which indications continue to suggest a very transmissible but less severe disease (so far). New cases in South Africa appear to be rolling over roughly one month from the surge’s onset. Hospitalizations are rising, but not to the degree of previous strains; and deaths have stayed relatively low for now. We want to at least be mindful of the possibility that Covid may be transitioning toward an endemic (something we live with like the flu) rather than a pandemic. We are hopeful that the global reopening can progress over the coming months as Covid concerns subside- and with it may come an easing of inflationary pressures. This will be a key influence on Fed policy, economic growth, corporate earnings, and valuation.

As for monetary policy, we believe it is prudent for the Fed to take its foot off the gas at this stage of the recovery (with rate liftoff likely to commence in 1st half 2022). But given that the Fed has been so important to equity markets since the credit crisis, a normalization of policy (and more hawkish pivot) could come with more moderate returns and normal volatility/choppiness over the coming year. Rate hikes alone do not derail equity markets and concerns become more heightened following a yield curve inversion, which is far off. We have a base case S&P 500 target of 5053 in 2022, and recommend a balanced but pro-cyclical tilt to portfolio positioning. With overall conditions likely to remain healthy, we would use pullbacks and rotation as opportunity. (M21-4020852)

Please note, next week’s Weekly Market Guide is also likely to be abbreviated. We wish you and your families a very Merry Christmas and Happy Holidays!
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Index Definitions

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The MSCI World All Cap Index captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The MSCI Emerging Markets Index is designed to measure equity market performance in 23 emerging market countries. The index’s three largest industries are materials, energy, and banks.

The Russell 2000 index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The NYSE Alerian MLP is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).
The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange’s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan’s Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan’s top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor’s results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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