



Market Commentary January 10, 2022

Dear Investors:

Here's a little story about a group called the Fed...

In the 1950's, then Fed Chair William McChesney Martin described the Federal Reserve as "the chaperone who has ordered the punch bowl removed just when the party was really warming up."

In 2020, the opposite was true. The Fed, along with fiscal policymakers, filled the stimulus punch bowl to the brim to keep the country from falling into a recession or depression. In November 2021, Fed Vice Chair Richard Clarida explained:

"The COVID-19 pandemic and the mitigation efforts put in place to contain it delivered the most severe blow to the U.S. and global economies since the Great Depression. Gross domestic product (GDP) collapsed at a nearly 33 percent annual rate in the second quarter of 2020. More than 22 million jobs were lost in just the first two months of the crisis, and the unemployment rate rose from a 50-year low of 3.5 percent in February to a postwar peak of almost 15 percent in April 2020...The fiscal and monetary policy response in the United States to the COVID crisis was unprecedented in its scale, scope, and speed."

That stimulus helped the economy recover quickly. As a result, demand for goods rose and exceeded supply, pushing prices higher. The Fed did not act immediately to tame inflation because its members believed price increases would subside as supply chain issues eased. Then, in November, inflation was 6.8 percent year-over-year, as measured by the *Consumer Price Index*. The cost of shelter, which typically is not transitory, was up more than 3 percent year-over-year.

In December, the Fed adjusted its outlook on inflation, removing the word "transitory," and accelerated the pace at which it would reduce monetary stimulus (i.e., remove the punchbowl). Fed Chair Jerome Powell explained, "...in light of the strengthening labor market and elevated inflation pressures, we decided to speed up the reductions in our asset purchases. As I will explain, economic developments and changes in the outlook warrant this evolution of monetary policy, which will continue to provide appropriate support for the economy."

Major United States stock indices dropped lower after Powell's remarks before climbing to new highs in December.

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Last Wednesday, the minutes of the Fed's December meeting were released. Investors appeared to be surprised by the changes in the Fed's change in tone, reported Ben Levisohn of *Barron's*. Share prices tumbled again and the yield on 10-year Treasury notes moved higher.

Data as of 1/7/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-1.9%	-1.9%	23.0%	22.4%	15.6%	13.8%
Dow Jones Global ex-U.S. Index	-0.6	-0.6	2.8	10.1	6.8	5.0
10-year Treasury Note (yield only)	1.8	N/A	1.1	2.7	2.4	2.0
Gold (per ounce)	-1.5	-1.5	-6.6	11.5	8.8	1.1
Bloomberg Commodity Index	2.1	2.1	26.1	8.8	3.3	-3.4

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IT ALL DEPENDS ON WHO YOU ASK...

Last week's unemployment report illustrated, once again, a remarkable divergence in the messages delivered by the data. Here is what we learned:

- **The U.S. added 199,000 jobs.** When the Bureau of Labor Statistics (BLS) calculates the number of jobs added to the U.S. economy each month, its data come from an employer survey.

Last week's report showed that 199,000 jobs were created in December. That was a lot lower than expected. Dow Jones estimated 422,000 new jobs would be created, according to Jeff Cox of CNBC. The low employment number suggests U.S. economic growth may be slowing, reported Colby Smith, Andrew Edgecliffe-Johnson and Christine Zhang of *Financial Times*.

Of course, the number of jobs created in December may be revised higher over the next two months. Last year, "...revisions from the first estimate to the third and final release...added nearly 1 million jobs to the initial releases – 976,000 to be exact, through October," reported CNBC. That was the highest upward adjustment ever in a single year, according to *Financial Times*.

- **The unemployment rate fell to 3.9 percent.** When the BLS calculates the unemployment rate, its data come from a household survey.

In December, that survey showed the unemployment rate fell to 3.9 percent overall. Unemployment rates varied by race: 3.2 percent for white people, 7.1 percent for Black people, 3.8 percent for Asian people, and 4.9 percent for Hispanic people. The low overall unemployment rate suggests the economy is experiencing strong growth.

Rising wages and record numbers of job openings also indicate economic strength. Average hourly earnings for U.S. workers rose 4.7 percent in 2021, and there were 10.6 million job openings in November, according to last week's *BLS Job Openings and Labor Turnover* report. The report indicated that 6.7 million people were hired and 6.3 million left their employers.

Why is the unemployment data wonky? An expert cited by *Financial Times* reported, "The economic fundamentals have been shifting at unprecedented speed. Not in my lifetime and not in the lifetime of

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most people alive today have we seen...an economic recovery that has been as rapid as it has been since the spring of 2020...The challenges of economic measurement in a pandemic environment are enormous.”

Weekly Focus – Think About It

“Facts are stubborn things, but statistics are pliable.”

—Mark Twain, writer

Best regards,

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P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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- * All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
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