Summary

Economic data during the holiday week included a slight revision upward for Q3 U.S. GDP, and a slight improvement in consumer confidence. Durable goods orders and housing metrics were mixed.

Global equity markets gained broadly last week, as fear of the Covid omicron variant's severity seemed to subside a bit. Bonds were mixed to lower along with higher interest rates. Commodities also fared well, particularly in oil and metals, where the demand outlook was again viewed more positively.

Economic Notes

(+) The third and final edition of 3rd quarter **GDP** was revised up from 2.1% to 2.3%—stronger than the expected no change. However, it remains far lower than the quarterly results for Q1 and Q2. In Q3, personal consumption was revised up by 0.3% to an annualized rate of 2.0%, with strength in Covid-recovery themes of recreation and transportation. Growth in structures was revised up by nearly a percent, but remained at a negative -4% annualized rate for the quarter. PCE inflation for Q3 was revised upward minimally, to an annualized rate of 5.4% headline and 4.6% core, with the GDP price index to an annualized 6.0%. Overall, changes from the prior release were minimal.

The Atlanta Fed's GDPNow estimate for Q4 has fallen from around 8-9% in recent weeks to a current 7.6%. This compares to a blue chip consensus estimate of around 6% (with the range being 4.5-7.5%). This growth was expected to be that 'pushed forward' from a pause largely blamed on the delta variant's impact, with the omicron variant now acting as the wildcard. Regardless, current estimates for 2022 look much closer to recent trend rates of 2-3%.

(+/0) **Personal income** for November rose by 0.4%, led by transfer payments, followed by wages; **personal spending** increased 0.6%, although that result was little-changed from the prior month in real inflation-adjusted terms. Both matched consensus expectations. The trailing 12-month gains for income and spending were 7% and 13%, respectively. The personal savings rate for November declined by -0.2% to 6.9%, moving to its lowest level since Dec. 2017, with the assumption that households have been drawing down excess savings built up during the pandemic. The **PCE price index** for the month rose 0.6% on a headline level, and just under 0.5% for core, each matching expectations. The year-over-year measures remained high at 5.7% and 4.7%, respectively, although not as high as CPI due to the difference in composition.

(0) **Durable goods orders** in November rose by 2.5%, exceeding the median forecast calling for a rise of 1.8%, although this included a downward revision for the prior month. Transportation equipment orders fared well during the month—removing that sector pulled the overall gain down to 0.8%, while excluding defense kept the gain at 2.0%. Core capital goods orders actually fell by -0.1% for the month—in contrast to an expected 0.7% increase. Core capital goods shipments increased 0.6%, double the expected growth. Durable goods overall have been positive for six of the last seven months, in keeping with strengthened economic growth broadly.

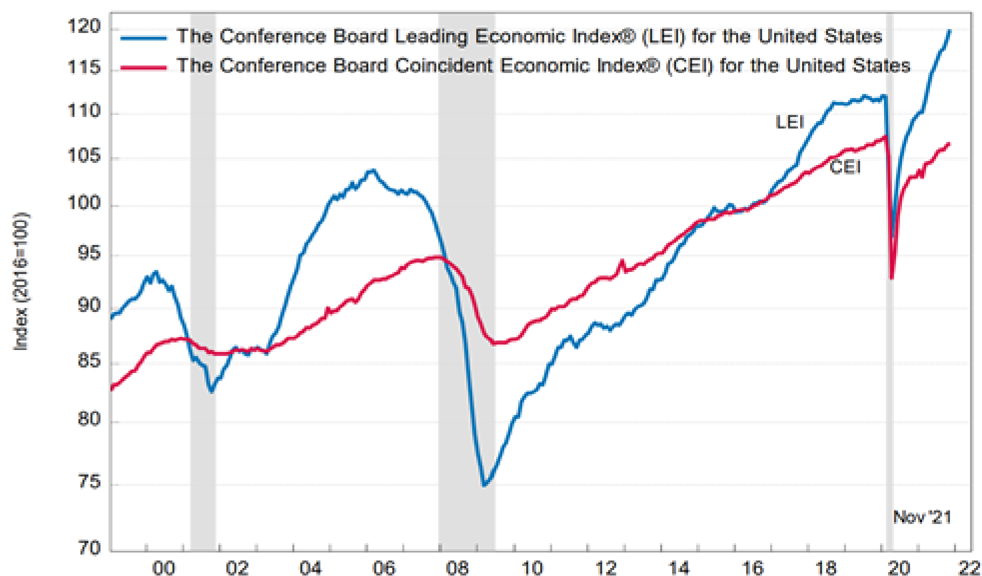
(-) **Existing home sales** for November rose by 1.9% to a seasonally-adjusted annualized rate of 6.46 mil. units, falling short of the median forecast calling for a 2.9% increase. Single-family units rose nearly 2%, while condo/co-ops rose over 4%. Regionally, the South and West each gained 2-3%, while the Midwest and Northeast were little changed. The median sales prices rose another 0.7% to $353,900, which represented a 14% gain over the last 12 months (although sales themselves were actually down -2% on a year-over-year basis). Months' supply ticked down to 2.1, demonstrating the continued very tight conditions. The National Association of Realtors, who compiles the data, noted a determination of buyers to execute transactions prior to an expected rise in interest rates over coming months (despite the NAR themselves noting the likelihood of sharp rate increases remaining low).

(0/+) **New home sales** in November rose by 12.4% to a seasonally-adjusted annualized rate of 744k units, but fell below the consensus estimate of 770k. This included a revision downward in October by over -80k units. Regionally, the west experienced the strongest gains of 84k, while the Midwest saw sales fall back by -18k. The median sales price came in at $416,900 (19% higher than a year ago), while months' supply fell from 7.1 to 6.5. Year-over-year new homes sales remain down -14%, still affected by supply of materials and labor, although inventories have been rising as of late—at least in the planned/under-construction categories.

(+) The **Conference Board consumer confidence** index for December rose by 3.9 points to a level of 115.8, beating the median forecast of 111.0, and representing the highest reading in four months. A small decrease in the assessment of current conditions was offset by a 7-point rise in future expectations. The labor differential, which measures the ease in finding jobs, ticked down by a few points, but remains near all-time highs.

(+/0) The final **Univ. of Michigan consumer sentiment index** result for December showed a rise of 0.2 of a point to 70.6, which beat the 70.4 reading expected; the preliminary reading earlier in the month had risen by 3.0 points from November. Consumer assessments of present conditions ticked down by a fraction of a point, while expectations for the future improved by the same amount. Inflation expectations for the coming year fell back by a tenth of a percent to 4.8%, as did those for the next 5-10 years, to 2.9%. The latter number is interesting and important, with the Fed looking at consumer future expectations specifically to get a gauge on how embedded inflation is becoming in the economy. Thus far, while it has risen from the 2.0-2.5% levels of the past few years, it hasn't moved off the charts.

(+) The Conference Board Index of **Leading Economic Indicators** for November rose by 1.1%, an acceleration in growth from the two prior months. Eight of the ten components ended positively for the month, led by jobless claims, stock prices, interest rate spread, and ISM new orders; the negative contributor was average consumer expectations for business conditions. Over the last six months from June through November, the index rose at an annualized rate of 9.5%, compared to growth of 10.1% for the prior six-month period. For November, the coincident index gained 0.3%, while the lagging index declined by -0.1%. Estimates for economic growth remain at 6.5% for Q4 2021, and falling to 2.2% for Q1 2022. The primary message is that recessionary probabilities remain low, due to the continued-high recovery growth trend. The chart below depicts this well, in comparison to the trend pre-Covid.



Source: The Conference Board. Shaded areas indicate recessions, as defined by the NBER.

(0) **Initial jobless claims** for the Dec. 18 ending week were unchanged at 205k, which matched the consensus estimate. **Continuing claims** for the Dec. 11 week fell by -8k to 1.859 mil., which was above the median forecast of 1.835 mil. Results were mixed by state, with no major outliers. Holiday results tend to be skewed at least somewhat by seasonal adjustments, but the trend still points to improvement.

Market Notes

Period ending 12/24/2021	**1 Week (%)**	**YTD (%)**
DJIA	1.65	19.65
S&P 500	2.30	27.59
NASDAQ	3.20	22.24
Russell 2000	3.12	14.58
MSCI-EAFE	1.58	10.21
MSCI-EM	0.31	-3.62
BBgBarc U.S. Aggregate	-0.37	-1.70

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2020	0.09	0.13	0.36	0.93	1.65
12/17/2021	0.05	0.66	1.18	1.41	1.82
12/24/2021	0.07	0.71	1.25	1.50	1.91

In the U.S., every sector ended in the positive, led by consumer discretionary and technology, up 3-4%, while defensive sectors consumer staples and utilities registered gains under a percent. Real estate gained meagerly as well, held back likely by rising interest rates.

The week began negatively, following a surge of global restrictions imposed in the face of the Covid omicron variant the prior weekend. The news also included digesting the rejection of the Build Back Better Plan by WV Sen. Manchin, which would result in lower spending in the near term. By later in the low volume holiday week, eased fears about the omicron variant propelled sentiment higher, with ongoing medical reports about its lesser degree of severity compared to earlier variants, as well as reports that vaccine boosters by some manufacturers showed continued effectiveness, and FDA approval of several Covid antiviral medications. During a press conference, Pres. Biden's vow for no further lockdowns reassured investors as well.

What is the potential economic impact of no Build Back Better bill (or a tweaked watered-down version)? The effects are mixed. On one hand, government transfer payments and enhanced benefits to consumers tend to raise spending (particularly seen via an expanded child tax credit)—so lower payouts equate to lower potential economic growth as this spending percolates up to corporate earnings. (Some estimates call for a reduction of Q1-2022 GDP from 3% to 2%, roughly, with lesser effects in subsequent quarters, implying the spending benefits are shorter-term.) At the same time, the bill's cost required higher taxes, which can weigh on corporate net earnings to the negative. Sen. Manchin's primary concerns were about the high social spending costs, which are difficult to pare back once implemented.

Foreign stocks gained, along with positive sentiment for equities generally, and boosted by a falling dollar. Europe and the U.K. outperformed U.S. stocks, while Japan and emerging markets lagged with lesser positive returns. While reports of omicron's lesser severity helped markets abroad as well, Europe has undergone stronger lockdown restrictions, notably in the Netherlands, with travel restrictions in several other countries—all of which are likely to weigh on near-term economic growth, which is already challenged there. In light of these uncertainties, he ECB announced tapering of its emergency asset-buying program, while temporarily increasing other programs. In China, a key interest rate was cut, in keeping with hopes to avoid negative economic ramifications from negativity in property markets.

U.S. bonds were mixed in investment-grade, while high yield and floating rate bank loans gained along with positive sentiment for risk assets and rising interest rates. A weaker dollar last week didn't help developed market debt, but pushed local currency emerging market bonds up sharply.

Commodities regained ground last week with every sector in the positive, led by energy and industrial metals. The price of crude oil rose by over 4% to just under $74/barrel. In a reversal of recent weeks, reduced fears of the Covid omicron variant have caused demand expectations to again rebound higher.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.