Weekly Market Commentary
December 13th, 2021

Inflation Hits The Highest Number Since 1982

U.S. equity markets rebounded this week, after two weeks of losses, as investors were able to climb two key walls of worry: the path of the Federal Reserve and the path of the COVID-19 virus.

We will likely get more clarity on both issues in the week(s) ahead, with investors digesting both the December FOMC meeting next week as well as incoming data around the omicron variant, which thus far appears less severe than originally expected

Jerome Powell's Big Pivot

In the midst of the omicron scare last week, Fed Chair Jerome Powell surprised markets with a somewhat hawkish pivot in a couple of notable areas. First, he suggested that the word "transitory" be retired when discussing inflation – implicitly acknowledging that inflationary pressures have been more persistent than the Fed had expected.

The second pivot from Chair Powell came around the path of the Fed's taper. Powell noted that accelerating the path of the Fed's balance-sheet tapering "by a few months" could make sense, as it would allow some flexibility around when the FOMC could start raising rates, particularly if inflation continues to remain stubbornly high. This notion was touted by several Fed governors last week as well.

Friday's inflation reading may have sealed the deal

Indeed, on Friday we saw that CPI inflation remained elevated through November. Headline inflation figures came in at 6.8%, the highest level since 1982, while core inflation was 4.9% year-over-year, in line with expectations but also elevated. While inflation remains high, keep in mind that these are backward-looking readings; this CPI figure, for example, does not account fully for the recent drop in energy prices, and we could see moderating prices in the months ahead.

Nonetheless, the inflation reading likely underscores the need for the Fed to take action, and accelerating the taper process is a concrete step in battling inflation. This also comes as the labor market continues to show signs of improvement, with the unemployment rate now at 4.2%, well below the pandemic peak of 14.8%. So, between the Fed's dual mandates – inflation and labor – the Fed may be shifting its focus to battling inflationary pressures over improvements in the labor market, at least for now.

The Fed's dual mandate - Inflation continues to remain well above the Fed's 2.0%

target, while the labor market shows steady improvement:

What do we expect the Fed to do next week?

We see three key outcomes from the December FOMC meeting:

1. We expect the FOMC to announce an accelerated balance-sheet tapering process at next week's meeting. The pace of tapering will likely increase from $15 billion per month currently, to perhaps close to $30 billion per month. This would allow the Fed to wind down its tapering process by the first quarter of 2022, making room for the start of its rate-hiking cycle, if needed.

2. We will also be getting a new set of economic projections from the Fed next week, which will likely have updated growth, inflation, and unemployment forecasts. Notably, we will also get a new Fed "dot plot," which indicates the Fed's best guess on the path of its benchmark fed funds rate. In our view, while the Fed will likely accelerate the tapering process, we believe it still has room to be patient and deliberate on rate hikes.

3. Finally, we will hear Jerome Powell at the press conference discuss the Fed's latest thinking around key issues like the omicron variant, inflationary pressures, and, of course, the path of the Fed rate-hiking cycle. Notably, Powell has an opportunity to offer perhaps some more dovish commentary, particularly given the uncertainty that the new omicron variant adds to the growth outlook.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	35,971	4.02%
S&P 500 Index	4,712	3.83%
NASDAQ	15,631	3.62%
MSCI EAFE	2,296	2.36%
10-yr Treasury Yield	1.48%	9.63%
Gold	$1,783	0%
Bonds	$114.23	-.73%

Source: Reuters/Wall Street Journal

The IRS Announces 2022 Inflation Adjustments
What You Need To Know

The tax items for the tax year 2022 of greatest interest to most taxpayers include the following dollar amounts:

- The standard deduction for married couples filing jointly for the tax year 2022 rises to $25,900 up to $800 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to $12,950 for 2022, up to $400, and for heads of households, the standard deduction will be

$19,400 for the tax year 2022, up to $600.

- The personal exemption for the tax year 2022 remains at 0, as it was for 2021, this elimination of the personal exemption was a provision in the Tax Cuts and Jobs Act.

- Marginal Rates: For the tax year 2022, the top tax rate remains 37% for individual single taxpayers with incomes greater than $539,900 ($647,850 for married couples filing jointly).

The other rates are:

- 35%, for incomes over $215,950 ($431,900 for married couples filing jointly).
- 32% for incomes over $170,050 ($340,100 for married couples filing jointly).
- 24% for incomes over $89,075 ($178,150 for married couples filing jointly).
- 22% for incomes over $41,775 ($83,550 for married couples filing jointly).
- 12% for incomes over $10,275 ($20,550 for married couples filing jointly).
- The lowest rate is 10% for incomes of single individuals with incomes of $10,275 or less ($20,550 for married couples filing jointly).

For 2022, as in 2021, 2020, 2019, and 2018, there is no limitation on itemized deductions, as that limitation was eliminated by the Tax Cuts and Jobs Act.

The tax year 2022 maximum Earned Income Tax Credit amount is $6,935 for qualifying taxpayers who have three or more qualifying children, up from $6,728 for the tax year 2021. The revenue procedure contains a table providing the maximum EITC amount for other categories, income thresholds, and phase-outs.

Estates of decedents who die during 2022 have a basic exclusion amount of $12,060,000, up from a total of $11,700,000 for estates of decedents who died in 2021.

The annual exclusion for gifts increases to $16,000 for the calendar year 2022, up from $15,000 for the calendar year 2021.

Earnings Highlights This Week

(source: CNBC)

Rent the Runway- Rent the Runway booked a wider fiscal third-quarter loss compared with 2020, as its sales shot up 66% year over year, in its first financial report since its IPO in late October. The company ended the quarter with 116,833 active subscribers, up 78% year over year. Active subscribers are at about 87% of its 2019 base, the company said.

Stitch Fix- Stitch Fix reported a narrower-than-expected fiscal first-quarter loss and beat analysts' sales expectations. Sales were driven by more users for its Freestyle direct-buy option. But the company cut its revenue outlook for the fiscal year, saying that it faces ongoing supply chain pressures and is in a transition period as it brings on new users.

GameStop- GameStop's shares fell after the company reported that losses widened in the fiscal third quarter. The video game retailer's net loss grew to $105.4 million, or $1.39 per share, from a loss of $18.8 million, or 29 cents per share, a year earlier. Total revenue grew to $1.30 billion from $1.00 billion a year earlier. Inventories grew in the latest quarter as GameStop looked to get ahead of supply chain challenges and be well-stocked for the holidays.

Oracle- Oracle beat expectations on the top and bottom lines, and quarterly guidance met consensus. The software and hardware maker's results were affected by Oracle's payment of a judgment in a decade-long dispute involving former CEO Mark Hurd's employment.

Lululemon- Lululemon reported fiscal third-quarter earnings and sales that topped analysts estimates, prompting it to raise its full-year outlook. The company is pleased with its early holiday season performance, said CEO Calvin McDonald. However, Lululemon lowered its expectations for sales of its at-home fitness device, Mirror, for the year.

News and Notes:

What's The Number One Scam This Holiday Season?

We have to keep our eyes open for holiday scams…what's the number one scam we need to watch out for this holiday season?

- Number one scam is still old-fashioned e-mail through phishing links- make sure you check the 'sender' e-mail.
- Fake websites follow at number two! Fraud experts say thousands of domains were purchased to impersonate Amazon.
- Be vigilant- protect your credit card and personal information & look for HTTPS websites vs. HTTP as they are more secure.

The pandemic has changed our habits. What are gifts we can buy that may be pandemic & supply chain protected?

- This could be the year of the "downloadable gift"- this could be a digital gift card or gift a streaming service subscription for a year.
- Consider gifting an experience. Most venues (museum, spas, etc.) are open and this is something you can get locally in your city.
- Shop local: This could be the best holiday season to browse your local stores and make a purchase. Help your community.

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