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Economic and Investment Forecast
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While stocks are closing in on yet another strong year, investors have found this holiday time to be anything but calm and relaxing. A nine-hundred-point fall by the Dow Jones Industrial Average on the day after Thanksgiving was startling and a precursor to additional market turbulence during the ensuing weeks. While the volatility has been notable, so have been the strong earnings reports by companies in the S&P 500 Index. In the recently concluded third quarter, 82% of stocks delivered results that beat expectations, while overall profitability rose by 30% for this group of companies. Investor confidence was clearly boosted by these results, pushing the Dow Jones over the 35,000 level and near its all-time high.

The new Omicron variant is causing much of the recent consternation for markets as it creates the risk of additional restrictions and economic lockdowns around the world. While most countries have adapted well to the pandemic, there are still issues remaining. For example, global supply chains have come under strain from labor shortages, culminating in the lackluster 2.1% third quarter U.S. GDP growth recently reported.

Speculation around fiscal and monetary policy out of Washington D.C. has become a key driver of financial markets this year. With the $1.2 trillion dollar infrastructure bill signed into law on November 15th, the focus has turned to the Administration's second priority of a social and climate spending plan. However, this legislation titled the Build Back Better Act is running into headwinds, with a sharp rise in inflation being the most notable. In fact, November's inflation reading was the highest in thirty years, spurred on by spiraling gasoline prices and increased wages. Consumers were also buffeted by a 6.2% rise in prices for goods, the largest increase since 1990.

Despite these economic woes, there is cause for optimism as we look ahead to 2022, beginning with expectations for 5% global GDP growth. The world economy should continue to benefit from the broad deployment of vaccines which have the potential to further unleash pent-up demand that resides within consumers and businesses alike. The Federal Reserve and other central banks would welcome these improved business conditions as they plan to withdraw emergency support for both the economy and financial markets. Regarding inflation, the Fed has changed its tune with Chair Powell acknowledging that recent higher prices are not transitory, but instead a more permanent consequence of the pandemic. Even so, overall sentiment is pointing higher, and all of us are hopeful that the pandemic will subside further, clearing the way for our return to more normal times ahead.