OBSERVATIONS

- Since reaching its most recent peak of nearly $85/bbl, crude oil entered a bear market after declining by over -20% during November.[1]
- Cryptocurrencies experienced significant declines, likely driven by speculator deleveraging, late last Friday into the weekend, with Bitcoin losing as much as -21% by Saturday — Bitcoin is down nearly 30% since reaching its peak on 9-Nov.[1]
- Uncharacteristic November volatility fueled by COVID variant fears led to the S&P 500 losing -2.8% in the final three days of November to close out the month with modest negative losses of -0.70%, the index is up +22.4% on a year-to-date basis (as of last Friday, 3-Dec).[1]
- Bond markets (Bloomberg Aggregate index) managed gains of 0.30% for the month thanks to the late November market volatility which prompted a flight to safety. On 26-Nov alone, the 10-year U.S. Treasury yield dropped by 0.16% to 1.48% — the largest one-day decline in the 10-year yield since March of 2020.[1]
- Meanwhile, last week the 10-year reached 1.35%, the lowest since 22-Sept.[1]
- The Staples Center — home to pro sports teams the Lakers, Clippers, Kings, and Sparks — is set to be renamed to the Crytpo.com Arena in what is now one of the largest naming rights deals in history.
- Manufacturing remained robust through November as the Institute for Supply Management Manufacturing Index registered 61.1%, solidly in economic expansion territory for the 18th consecutive month and slightly better than October.[2]
- U.S. created 210,000 jobs in November—well short of the consensus estimate of 550,000 new jobs. Despite this figure, the unemployment rate moved down to 4.2% and wages increased by 4.8% over the past year.[3]

EXPECTATIONS

- The Senate passed a stopgap bill following the House of Representative's passage sending the bill to Biden for signature. The bill will keep the government funded through mid-February, avoiding a potential shutdown. Meanwhile, a technical default on U.S. debt would likely occur near 15-Dec should Congress not act to increase the debt ceiling before then. We believe that last minute partisan brinksmanship on this issue is all but assured but expect the Senate will work to avoid a worst-case scenario at the eleventh-hour. [4]
- Didi, the primary ride hailing firm (i.e., Uber) of China, announced plans to delist from the NYSE—the firm had a $4.4 billion IPO just this past June—under pressure from Chinese regulators and plans to list share in Hong Kong. This is the latest example of the gradual financial decoupling between the U.S. and China, and it likely portends additional Chinese firms—particularly those that utilize a great deal of personal data of Chinese citizens—to delist from non-Chinese exchanges and relist or IPO on Chinese exchanges.[5]

ONE MORE THOUGHT: *Pressure for interest rate hikes gather*

In the last two weeks we have seen a variety of Federal Reserve members (Daly, Bostic, Clarida, Bullard, Powell, and Mester) reference that conditions likely warrant a faster tapering of the Fed's bond buying program. The Fed just began the process of reducing its purchases of government bonds last month and had been expected to wind down that program sometime in mid-2022. However, given the persistence of higher inflation readings, many of the Fed's

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[1] *Bloomberg LP*

[2] *https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/november/*

[3] *https://www.bls.gov/news.release/empsit.nr0.htm*

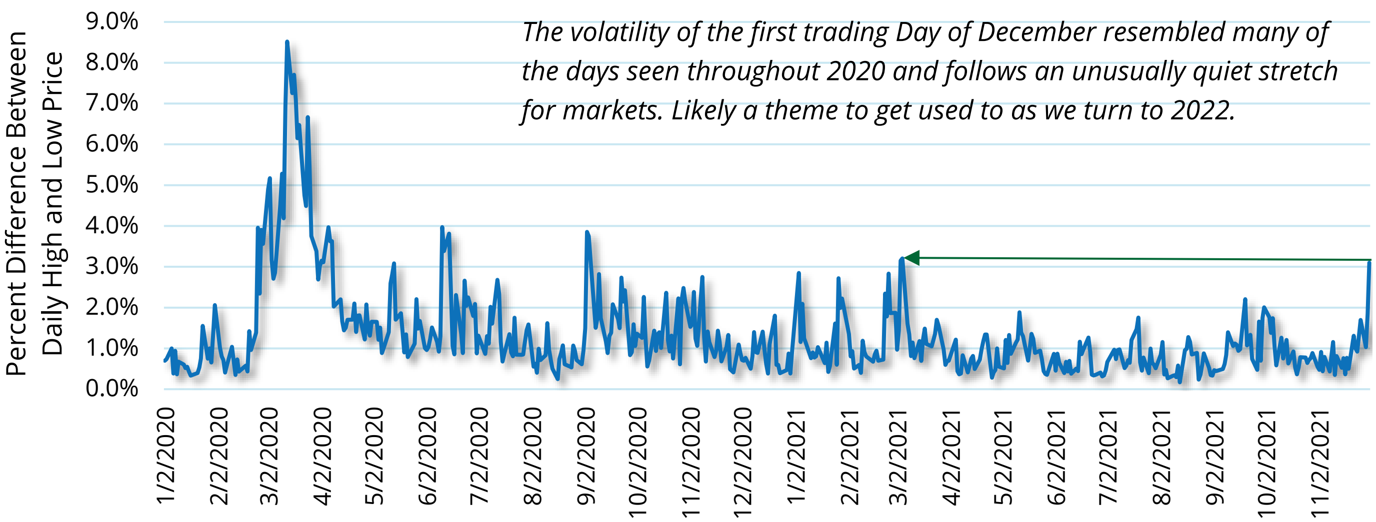
[4] *https://www.wsj.com/articles/lawmakers-reach-deal-to-prevent-government-shutdown-11638454923?mod=hp_lead_pos7*

[5] *https://www.wsj.com/articles/didi-global-plans-to-delist-from-new-york-stock-exchange-11638495158?mod=hp_lead_pos4*

policy making committee have suggested that a faster taper may be necessary in order for the central bank to begin raising interest rates. Notably, Fed Chair Powell just last week (post COVID's Omicron variant discovery) remarked that "at this point, the economy is very strong and inflationary pressures are higher, and it is therefore appropriate in my view to consider wrapping up the taper of our asset purchases, which we actually announced at the November meeting, perhaps a few months sooner." Bond markets now appear to be sending mixed signals as they prepare for 2-3 rate hikes for 2022. Short-term bond yields have reacted to the prospect of rising rates as the 2-yr U.S. Treasury yield has reached .59% (highest since March 2020), while long term bond yields (i.e., 10-yr U.S. Treasury yield) have declined to 1.35% from the year's high of nearly 1.75%. While the rise in the 2-yr was broadly anticipated, the rapid decline in 10-yr yields caught us a bit off guard. While some of the move can be attributed to the flight to safety in markets in recent days, the 10-yr may be signaling to brace for slower growth ahead. Importantly, we will be addressing expectations for 2022 more broadly in upcoming comments.

CHART OF THE WEEK

'Omicron', the Fed, and D.C. Bring Volatility Back into the Fold



Source: Clearstead, Bloomberg LP, Daily S&P 500 Prices (High Price-Low Price/Previous Day Close Price), as of 1-December

The first trading day of December saw the largest reversal since March of this year after a remarkably muted eight month stretch as the S&P 500 rallied nearly +2.0% before closing down -1.2% on the day. Markets continue to digest the potential impacts of the latest variant, a looming debt ceiling deadline, as well as a hawkish Federal Reserve.

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