OBSERVATIONS

- LiveWire, Harley-Davidson's electric motorcycle division will become a separate publicly traded company via a SPAC (i.e., bank check company) merger. Harley will continue to own nearly three quarters of the company, which will sport a $1.75 billion valuation.[1]
- U.S. Bureau for Labor Statistics reported that producer prices (PPI) have risen +9.6% (expectations were for +9.2%) on a YoY basis in November — the largest YoY increase since the data has been collected (2010).[2]
- Chinese industrial production rose by +3.9% year-over-year (YoY) in November—slightly ahead of expectations and above October's +3.5% YoY figure—but November retail sales missed expectations and grew by only +3.9% YoY in November—well below the +4.9% YoY growth registered in October.[3]
- Meanwhile U.S. retail sales grew by a +0.3% in November from October, this represents 18.2% YoY increase—not adjusted for inflation—from Nov-2020 indicating the U.S. consumer continues to spend.[4]
- European natural gas prices are surging again—Dutch natural gas future prices increased by over 10% last week—as a German regulator failed to approve the operations of Nord Stream 2 pipeline. Natural gas supplies remain strained in Europe as gas storage remains limited and demand is higher than normal due to colder than typical start to the winter season.[5]
- Global debt reached a new all-time high of $226 trillion driven by public sector debt as governments grapple with the pandemic. Public debt now accounts for 40% of total debt — the highest since the mid-1960s.[6]
- The Biden administration is set to add 8 additional Chinese companies to the already 60 companies blacklisted from investment by U.S. investors.[7]
- Amid rising inflation across Europe, the UK Central Bank announced last week a 15 basis-point rate hike and the European Central Bank indicated that it would scale back its quantitative easing measures beginning in March-2022.[8]

EXPECTATIONS

- Bloomberg's recent fund manager survey as to the most cited potential risks to central forecasts for 2022 are from the Fed making a policy mistake, followed by runaway inflation, with the pandemic coming in third.[8]
- The U.S. avoids a technical default as Congress voted to lift the debt ceiling last Tuesday, 14-Dec, by $2.5 trillion just one day before a default was anticipated. The increase will give the U.S. the borrowing capacity to get past mid-term elections and into the start of 2023 when it will require attention, once again.[9]

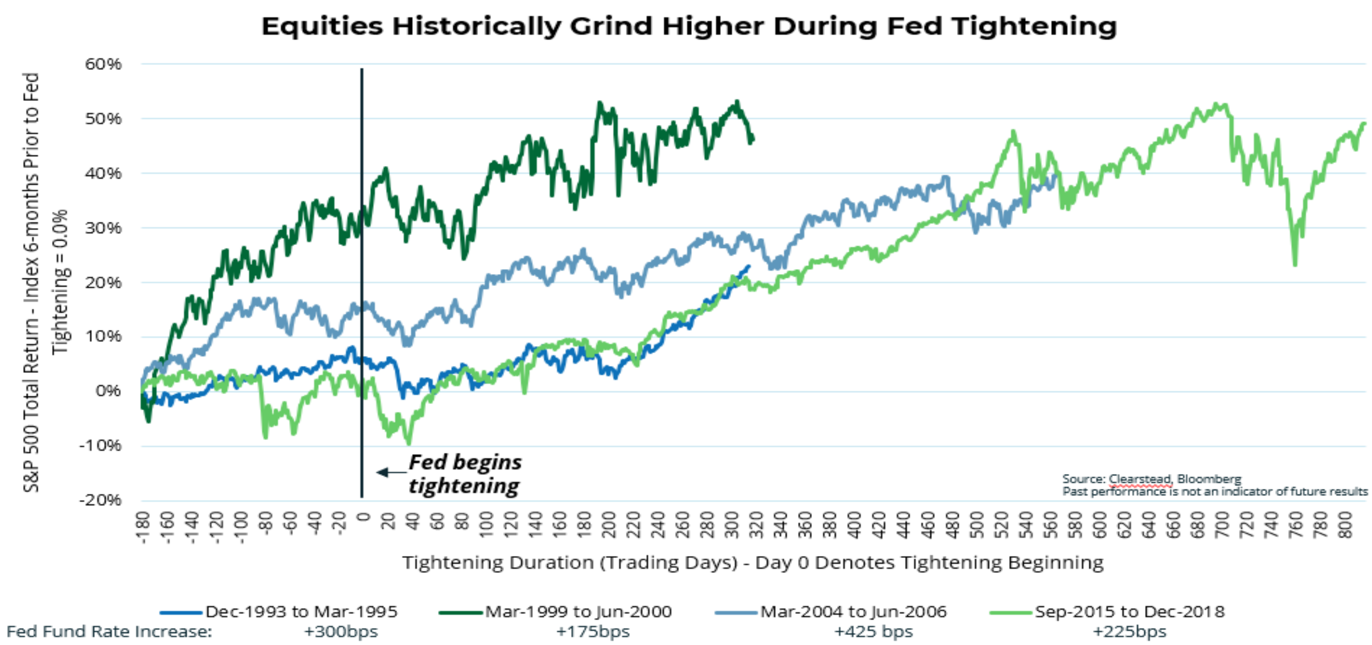
ONE MORE THOUGHT: The *Federal Reserve and foreign central banks again take center stage*[10]

Mounting inflationary pressures spurred by an increase in demand for goods versus services, supply chain disruptions, and a quick snap-back in labor markets have led global central banks to re-think their easy monetary

[1] *https://www.wsj.com/articles/harley-davidsons-electric-vehicle-division-to-go-public-via-spac-merger-11639404501*
[2] *https://www.bls.gov/news.release/ppi.nr0.htm*
[3] *Goldman Sachs - China: Industrial production surprised to the upside while retail sales below expectations in November 15-Dec-2021*
[4] *https://www.census.gov/retail/marts/www/marts_current.pdf*
[5] *https://www.ft.com/content/15a057f2-7647-496d-bcc6-6c4bcb836db6*
[6] *https://blogs.imf.org/2021/12/15/global-debt-reaches-a-record-226-trillion/?utm_medium=email&utm_source=govdelivery*
[7] *https://www.ft.com/content/fbcf9467-5b7e-4a81-8b40-d829fefa09ae*
[8] *https://www.ft.com/content/03a30484-b265-4a88-a861-de1784305d40*
[9] *Bloomberg LP*
[10] *https://www.ft.com/content/6633f375-b668-4bc4-b685-6e5b8fc6e39b*

policy. Last week the U.S. Fed announced an accelerated end to its bond-buying program—quantitative easing—to wrap up by the end of March-2022, and its press release indicated that the majority of Fed Committee members foresee three-rate hikes next year to help cool demand and ease pressure on prices. Similarly, the Bank of England surprised markets last week with a small rate increase (see Observations above) and the Bank simultaneously announced an end to its quantitative easing efforts by the end of the month. In mainland Europe, the ECB—in a move well telegraphed to markets—maintained its currency policy rate but announced a reduction to its monthly quantitative easing efforts beginning in March-2022 to an amount that is about half the monthly purchases it was making throughout 2021. These moves collectively demonstrate a shift towards less global liquidity and further mitigate against the unlikely prospect of a stagflationary environment taking root in 2022.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Past performance is not an indicator of future results

As the Federal Reserve prepares for an eventual tightening of its policy interest rates, history offers a glimpse into how markets have reacted prior to and during various tightening cycles. All else equal, Fed tightening has tended to coincide with economic strength and has represented a positive environment for equities, though equities may fall or trade sideways in the months prior to tightening.

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