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TheECONOMY

Goodbye Transitory, Hello Tightening

Volatility in financial markets has accelerated since the discovery of the Omicron variant in late November as market participants attempt to gauge the potential economic fallout associated with the spread of this latest virus strain. While Omicron introduces an added layer of uncertainty to the growth outlook, economists generally expect the new variant to have a more muted impact on global economies than initially feared.

Although Omicron may threaten to further exacerbate ongoing challenges to the job market recovery, recent data points to a continued tightening of labor market conditions. The unemployment rate declined from 4.6% in October to 4.2% in November, while initial jobless claims in the week ended December 4 fell to 184k, the lowest recorded level since September 1969.

Recent improvement in the labor market in conjunction with persistently high inflation supports the Fed's more hawkish pivot with respect to monetary policy in recent weeks. Last month, the FOMC outlined plans to gradually wind down its bond-buying stimulus program by June. Having finally acknowledged that inflationary pressures can no longer be considered "transitory" as previously expected, Fed officials are now prepared to accelerate the tapering process, potentially ending the program by March and paving the way for a first rate hike by mid-2022. Strong consumer demand and pandemic-induced bottlenecks in the global supply chain continue to put upward pressure on prices, further evidenced by the November CPI reading of 6.8%.

The Fed has conceded that its earlier inflation forecasts missed the mark as data continues to suggest that the only thing "transitory" about the current inflation narrative appears to be the term itself. In response, rates along the front end of the curve continue to move higher in anticipation of tighter monetary policy in 2022, a welcome development for money market investors to close the year.

Treasury Yields

MATURITY	12/9/21	11/9/21	CHANGE
3 Month	0.054%	0.038%	0.016%
6 Month	0.119%	0.056%	0.063%
1 -Year	0.262%	0.127%	0.135%
2 -Year	0.688%	0.421%	0.267%
3 -Year	1.016%	0.726%	0.290%
5 -Year	1.268%	1.081%	0.187%
10 -Year	1.499%	1.436%	0.063%
30 -Year	1.876%	1.818%	0.058%

Source: Bloomberg

Agency Yields

MATURITY	12/9/21	11/9/21	CHANGE
3 Month	0.077%	0.061%	0.016%
6 Month	0.100%	0.075%	0.025%
1 -Year	0.161%	0.116%	0.045%
2 -Year	0.736%	0.439%	0.297%
3 -Year	1.024%	0.725%	0.299%
5 -Year	1.315%	1.097%	0.218%

Source: Bloomberg

Commercial Paper Yields (A-1/P-1)

MATURITY	12/9/21	11/9/21	CHANGE
1 Month	0.080%	0.080%	0.000%
3 Month	0.190%	0.140%	0.050%
6 Month	0.270%	0.200%	0.070%
9 Month	0.370%	0.250%	0.120%

Source: Bloomberg

Current Economic Releases

DATA	PERIOD	VALUE
GDP QoQ	Q3 '21	2.00%
US Unemployment	Nov '21	4.20%
ISM Manufacturing	Nov '21	61.1
PPI YoY	Oct '21	12.50%
CPI YoY	Nov '21	6.80%
Fed Funds Target	Dec 10, 2021	0.00% - 0.25%

Source: Bloomberg

Data unaudited. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. All comments and discussions presented are purely based on opinion and assumptions, not fact. These assumptions may or may not be correct based on foreseen and unforeseen events. The information presented should not be used in making any investment decisions. This material is not a recommendation to buy, sell, implement, or change any securities or investment strategy, function, or process. Any financial and/or investment decision should be made only after considerable research, consideration, and involvement with an experienced professional engaged for the specific purpose. ***Past performance is not an indication of future performance. Any financial and/or investment decision may incur losses.***