At Passage Wealth, it is important to us that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

The big news this month is the Federal Reserve announced a widely expected acceleration in tapering to fight the elevated levels of inflation we have seen over the past 8 months. The pace the Fed will reduce bond purchases will be doubled, from a $15 billion to $30 billion reduction per month, putting the Fed on pace to have fully wound down bond market support by the spring. Further, the Fed now expects to raise rates up to three times in 2022. Overall, the market reacted favorably to the news, which came out December 15th and helped the S&P 500 gain 1.63% that day[1]. However, markets returned to periods of volatility in subsequent days. This tells us markets are both happy to reduce inflation but wary of higher interest rates.

Inflation numbers kept increasing in November with the Consumer Price Index rising 6.8% year-over-year[2], which was the fastest increase since the 1980s. Core prices, which exclude food and energy, rose 4.9% from last year with shelter, used cars, and apparel being a few of the more significant drivers in the report.

On the brighter side, despite the inflation and Omicron worries, consumer sentiment increased significantly in December according to the University of Michigan's Consumer Sentiment Index. The survey covers feelings on both the current conditions as well as expectations for the future. While the gain was significant, the overall index remains at some of the lowest readings since the pandemic began.

The labor market continues to have its difficulties with November's jobs report disappointing expectations with only 210,000 jobs being added to the economy[3]. The good news is the report also revised October's gain up to 546,000. Despite the lackluster jobs gain and increases in labor force participation, the unemployment rate dropped from 4.6% in October to 4.2% in November. The labor market will continue to be a focus of the Fed next year as it tries to balance full employment and persistent inflation, with the economy still well short of the number of jobs compared to before the

[1] Source: Bloomberg
[2] Source: US Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm
[3] Source: US Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm

pandemic. In short, the labor shortage and supply chain issues will continue to frustrate consumers through the better part of 2022.

The bottom line: As we wrap up the year and head into 2022, the same set of risks we have discussed over the last several months remain. Inflation, supply chains, and COVID-19 will remain in the headlines through the first part of next year and capture a substantial portion of investors' attention. We think it goes without saying that each can inject substantial bouts of volatility into the market. That said, the strength of the economic backdrop and the ability for companies to grow earnings in this environment has been impressive. Despite expected periods of volatility, we expect the equity market to grow in 2022. However, we should all expect bond markets to be frustrating as interest rates rise. From all of us here we hope you have a fantastic holiday season and a happy new year!