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.

Inflation, inflation, inflation! The news that dominated 2021 continues to be the primary focus in 2022. And, unfortunately, it will remain the case for at least the first quarter. The December data saw the fastest rise in the Consumer Price Index since the early 1980s, rising 7.0% from a year ago and 0.5% from November(1). For lack of a better way of saying it, this means the economy could be running too hot.

So, what's the Fed going to do about it? The Fed began reducing the amount of asset (bond) purchases several months ago, which has a natural effect of raising interest rates. As rates rise, the Fed expects the economy to slow down a bit and reduce the demand that drives inflation. However, as we've seen, the market is reacting volatilely to the natural rise in interest rates. This puts pressure on the Fed to decide how quickly (and how high) they need to raise interest rates to slow down the economy once the Fed stops buying bonds entirely. We expect to see the initial rate hike as early as March.

The market is "pricing in" four rate increases this year from the Fed(2). We believe that's on the high side. Our view is that three increases are likely given mid-term elections. It's rare to see a major rate increase during important political events.

Adding fuel to the fire is unemployment fell below 4% despite an underwhelming jobs report that showed only 199,000 new jobs were added to the US economy(3). A tight labor market is also keeping upward pressure on wages, with average hourly earnings rising 4.7%, though this was a slight slowdown from 5.1% the month before. As wages go up, slowly prices go up. This is a headwind for slowing down inflation.

December sales disappointed, declining 1.9% vs November(4). But, we need to take that with a grain of salt as much of the holiday shopping was brought into October and November as people feared a lack of stock. We can expect additional struggles in everything from sales to manufacturing as Omicron continues to take its toll on the global supply chain.

Many people are concerned about the potential geopolitical situation between Russia and Ukraine. While this is important for many reasons, these types of conflicts typically only have a short-term (if any) impact on global economics and equity markets. We are keeping a close eye on oil and energy markets as a result.

The bottom line: This update may sound like doom-and-gloom, but it's not. Yes, big problems stem from Omicron (supply chain) and inflation, but there is also a strong economy that has propelled markets to see multiple all-time highs over the last year. Volatility should be expected as the markets digest higher rates, but we believe any volatility will be short-term.

[1] Source: CNBC, https://www.cnbc.com/2022/01/12/cpi-december-2021-.html
[2] Source: CME FedWatch, https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html
[3] Source: Financial Time, https://www.ft.com/content/d26ccd56-ebb9-43a8-b6b1-ff8361ca9876
[4] Source: New York Time, https://www.nytimes.com/2022/01/14/business/retail-sales-december.html