

Beacon Weekly Investment Insights

Omicron is now the dominant U.S. Covid strain, surpassing the previously dominant Delta variant, and accounting for three-quarters of all Covid cases in the U.S. The rapidly spreading variant has led to many cancellations of holiday events, Broadway shows, sporting events and flights, and closures of restaurants, schools, and other businesses. It has also prompted many countries to issue restrictions and lockdowns, reminding everyone that we are still in the middle of a pandemic that has claimed 5.4 million lives so far.

Although highly transmissible, the early health studies show that hospitalization and death rates from the Omicron variant are significantly lower than the previous strains. In addition to highly effective vaccines, there are now anti-viral drugs that work against Omicron. The Food and Drug Administration (FDA) authorized Covid treatment pills from Pfizer and Merck last week, the first oral drugs specifically designed to fight Covid-19 to be given the green light by the FDA during the pandemic, adding new tools to our arsenal to combat the coronavirus as new variants emerge. The United States purchased 13 million courses of the pills, officially called Paxlovid (Pfizer) and Molnupiravir (Merck), with deliveries starting by the New Year. The administration also announced last week that they would distribute 500 million at-home Covid-19 test kits to combat further spread of the virus.

On the economic front, the Conference Board Leading Economic Indicator (LEI) increased by 1.1% in November to 119.9, its third consecutive monthly increase. The indicator is designed to forecast future economic activity using economic variables such as the unemployment rate, ISM manufacturing, housing starts, credit spreads, money supply, capital orders, equity market performance, and consumer sentiment. The November LEI report does not reflect the effects of the Omicron variant, however, it does show that the expansion in economic activity will continue in the near term.

Consumer sentiment improved in December according to the Conference Board report, as American consumers felt more optimistic about the economy heading into the holiday season despite higher inflation and rising Covid cases. As is the case with the LEI report, the consumer sentiment report does not fully reflect the recent rise in cases driven by the Omicron variant. Despite the rise in sentiment, the index is still below levels of early summer, before the Delta variant became the dominant variant.

Retail sales also rose during the holiday season, which covers November 1 through December 24. Despite product shortages, lack of foreign tourists, and the latest surge in Coronavirus cases, retail spending increased 8.5% from last year, and rose by 10.7% compared to the pre-pandemic levels in 2019, according to Mastercard. While foot traffic was down compared to 2019, online sales were up 61% in a sign that consumers remain resolute to celebrate the holidays and hopeful for life to return to normal.

Sales of previously owned homes rose by 2% in November from October to 6.5 million units, the highest rate since January. The increase is attributable to a strengthening job market, high household savings and concerns among potential buyers about the possibility of higher mortgage rates next year. Existing home sales are on track for their strongest year since 2006.

Following the apparent failure of the “Build Back Better” plan to pass Congress in 2021, some of the major banks downgraded their growth forecasts for 2022 by 0.5% - 1.0%. Despite the downward revision, U.S. economy is still expected to grow at a healthy level of 2% to 4% next year. Corporate profits are expected to rise by 9.2% in 2022 according to FactSet, which would also be a robust number, although not as strong as this year’s record surge from 2020’s depressed levels.

The much awaited “Santa Claus” rally finally arrived last week pushing the S&P 500 index to a record high of 4,726. Despite the higher than usual market volatility driven by concerns about Covid, S&P 500 recovered its intra-month losses and is now up 3.5% in December.

The last week before New Year’s will be a light one in terms of the economic calendar. Case-Shiller home price index will be released on Tuesday, followed by the pending home sales data on Wednesday, and the weekly jobless claims on Thursday.

As we get ready to say goodbye to 2021 and enter a new year, we wish all of you a happy and health 2022!

Market Scorecard:	12/24/2021	YTD Price Change
Dow Jones Industrial Average	35,950.56	17.46%
S&P 500 Index	4,725.79	25.82%
NASDAQ Composite	15,653.37	21.45%
Russell 1000 Growth Index	3,068.59	26.40%
Russell 1000 Value Index	1,633.40	21.03%
Russell 2000 Small Cap Index	2,241.58	13.51%
MSCI EAFE Index	2,314.75	7.79%
US 10 Year Treasury Yield	1.50%	58 basis points
WTI Crude Oil	\$73.79	52.08%
Gold \$/Oz.	\$1,811.70	(4.30%)

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