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MARKET MINUTE

2021 VOLUME 12: NOVEMBER REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by
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OVERVIEW

Based on solid corporate earnings and robust macro-economic data, the S&P 500 was steadily marching higher throughout the month when reports of a new COVID-19 variant, Omicron, hit financial markets. On the Friday after Thanksgiving (Black Friday), the S&P 500 declined by 2.27%, oil declined from $78.39 to $68.15, and the U.S. Treasury 10-year bond yield opened at 1.64% and closed the day at 1.48%.[1] The markets briefly reversed course the following Monday, only to finish the month on a very weak tone as financial market participants digest the latest news of the persistent COVID-19 pandemic.

How quickly investors forgot about the strong employment and rising inflation that had the Federal Reserve contemplating speeding up the tapering of its bond buying activities and possibly raising rates sooner than anticipated. Most likely, the economic impact of Omicron will not be known until late in Q1 2022; but for now, investors appear unwilling to wait for the evidence before passing judgement.

DOMESTIC EQUITY *As of November 30, 2021*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-3.5%	2.2%	14.6%	18.5%
S&P 500	-0.7%	6.3%	23.2%	27.9%
Russell 2000	-4.2%	-0.1%	12.3%	22.0%
Russell 1000 Growth	0.6%	9.3%	24.9%	30.7%
Russell 1000 Value	-3.5%	1.4%	17.7%	22.2%

The S&P had hit seven individual record high closes by mid-November and closed on November 24th within 7 basis points of the last record high of 4704.54 achieved on 18-November when fears related to the Omicron variant spooked markets, and the S&P 500 index declined steeply in two of the last three trading days of the month to end November down -0.70%.[1]

US growth stocks outperformed value by a wide margin (Russell 1000 Growth Index +0.6% vs Russell 1000 Value Index -3.5%) during the month as investors sought investments that would better handle any further COVID-19-induced weakening of the US economy. As investors embraced a risk-off environment, U.S. small caps (Russell 2000 Index -4.2%) underperformed their U.S. large cap peers (Russell 1000 Index -1.3%).

INTERNATIONAL EQUITY *As of November 30, 2021*

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-4.5%	-2.2%	3.5%	9.1%
MSCI EAFE	-4.7%	-2.3%	5.8%	10.8%
MSCI Emerging Markets	-4.1%	-3.1%	-4.3%	2.7%
MSCI EAFE Small Cap	-5.6%	-4.1%	5.5%	12.7%

Non-US equities lagged US equities as November's risk-off gained pace and caused the US dollar to appreciate and further dented non-US equity returns. International developed equity markets declined (MSCI EAFE Index -4.7%) along with emerging market equites (MSCI EM Index -4.1%). Much of these declines in international equities were centered in Europe, which is amidst another wave of COVID-19 cases—predominantly of the Delta strain—with several European capitals contemplating further lockdowns and travel restrictions that are weighing on economic sentiment.

Similar to the US, small cap stocks (MSCI ACWI ex US Small Cap Index -5.0%) lagged their large cap peers (MSCI ACWI ex US Index -4.5%) and growth stocks similarly outperformed value stocks on a relative basis for the month (MSCI ACWI ex US Growth Index -3.6% vs. MSCI ACWI ex US Value Index -5.3%).

FIXED INCOME *As of November 30, 2021*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
Bloomberg US Aggregate	0.3%	0.3%	-1.3%	-1.2%
Bloomberg Global Aggregate	-0.3%	-0.5%	-4.6%	-3.3%
Bloomberg US High Yield	-1.0%	-1.1%	3.3%	5.3%
JPM Emerging Market Bond	-1.4%	-1.4%	-2.9%	-1.2%
Bloomberg Muni	0.9%	0.6%	1.4%	2.0%

As economic data – robust growth, rising inflation – put pressure on the Fed to remove monetary accommodation, interest rates were slowly marching higher and favored fixed income investors positioned for rising rates and a growing economy. Fortunes quickly turned-on Black Friday as U.S. Treasury interest rates significantly declined and corporate bond spreads widened (high yield went from 311 basis points to 341).[1] November's top performers were long dated U.S. Treasury bonds, while high yield corporates and emerging market debt suffered through the risk-off environment. Risk assets appear to be fully valued and have historically performed well in the initial stages of monetary tightening. But now fixed income investors appear more concerned about economic growth slowing than they are worried that the Fed will remove the punch bowl.

CLOSING

Last month we opined, "Despite clear progress in reducing the number of COVID-19 cases ..." and logically thought the environment favored risk assets. Although the new COVID-19 Omicron variant has the markets stumbling, at this point, we are inclined to be patient. Almost 60% of the U.S. population is fully vaccinated, hospitals are better prepared than they were in March of 2020, and Corporate America knows how to operate in a pandemic climate. The challenge is how soon we get back to normal. Maybe normal is different from the "good old days" before COVID-19, but we believe we are on the road to recovery and, hopefully, Omicron is only a slight detour.

SOURCES:
1 Bloomberg LP