

The Fed Doubled Taper Plans and Introduces Rate Hikes

In a decidedly hawkish statement, the Fed doubled taper plans. Additionally, they plan to hike interest rates three times in 2022 and three more in 2023. Jerome Powell clearly articulated concern over inflation and his desire to normalize monetary policy quicker than anticipated a few months ago. If you are worried about stock prices have no fear. Jerome Powell made it clear in his press conference that financial stability is as important as fighting inflation. The term "financial stability" is Fed-speak for stable to rising asset prices.

Stocks jumped despite the fact the Fed doubled taper plans which will remove liquidity from markets more rapidly than expected. It's always wise to digest market reactions over the course of one or two days versus focusing on the initial reaction. That said, the initial reaction was quite the barn burner.



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: [Initial jobless claims](#), week ended December 10 (200,000 expected, 184,000 last week)
- 8:30 a.m. ET: [Continuing claims](#), December 4 (1.943 million expected, 1,992,000 last week)
- 8:30 a.m. ET: **Housing starts**, month-over-month, November (3.1% expected, -0.7% October)
- 8:30 a.m. ET: **Building permits**, month-over-month, November (0.5% expected, 4.0% October)
- 8:30 a.m. ET: **Philadelphia Fed Business Outlook**, December (29.6 expected, 39.0 prior)
- 9:15 a.m. ET: **Industrial Production**, month-over-month, November (0.6% expected, 1.6% October)

- 9:15 a.m. ET: **Capacity Utilization**, month-over-month, November (76.8% expected, 76.4% October)
- 9:15 a.m. ET: **Manufacturing (SIC) Production**, month-over-month, November (0.7% expected, 1.2% October)

Earnings

Pre-market

- **Adobe**?([ADBE](#)) to report adjusted earnings of \$3.19 on revenue of \$4.09 billion

Post-market

- 4:05 p.m. ET: **Rivian**?([RIVN](#)) to report adjusted earnings loss of \$5.08 on revenue of \$990,571
- **FedEx**?([FDX](#)) to report adjusted earnings of \$4.26 on revenue of \$22.39 billion

The Fed is Fretting Over Inflation

The Fed took a decidedly more aggressive stance against inflation. At Wednesday's FOMC meeting, the Fed doubled the pace of tapering to \$30 billion a month. QE will now end in March instead of June as the Fed originally expected. More importantly, they forecast three rate interest rate hikes in 2022, three more in 2023, and one in 2024. The Fed now expects 2.6% inflation in 2022, which is .4% more than when they last met. The redlined version below highlights changes to the last FOMC statement. The new statement upgrades its assessment of the employment situation while offering more concern about inflation. The graph below the statement plots the Fed's members' projections for Fed Funds. The green line over the gray line shows the Fed's projection for rate hikes is more aggressive than markets imply.

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

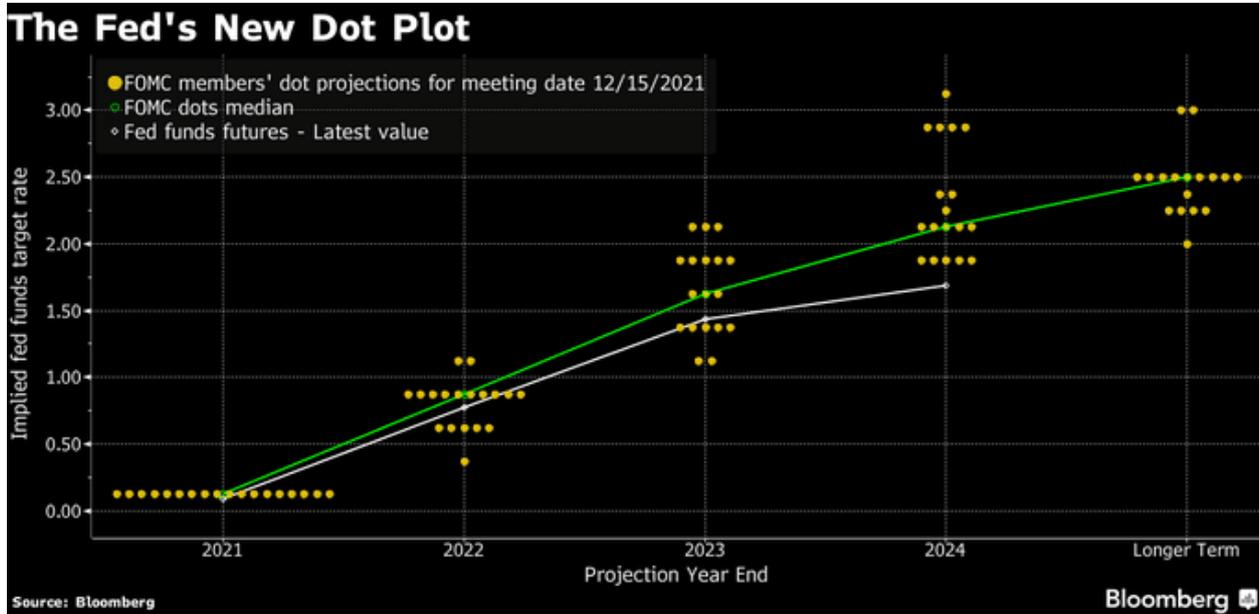
With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but ~~the summer's rise in continue to be affected by COVID-19 cases. Job gains have been solid in recent months, and the unemployment rate has slowed their recovery. Inflation is elevated, largely reflecting factors that are expected to be transitory, declined substantially.~~ Supply and demand imbalances related to the pandemic and the reopening of the economy have ~~contributed~~continued to ~~sizable price increases in some sectors~~contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, including from new variants of the virus.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. ~~With inflation having run persistently below this longer run goal~~In support of these goals, the Committee ~~will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee~~ decided to keep the target range for the federal funds rate at 0 to 1/4 percent ~~and~~. With inflation having exceeded 2 percent for some time, the Committee expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment ~~and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.~~. In light of inflation developments and the substantial further progress improvement in the economy has made toward the Committee's goals since last Decemberlabor market, the Committee decided to ~~begin reducing~~reduce the monthly pace of its net asset purchases by ~~\$40~~20 billion for Treasury securities and ~~\$5~~10 billion for agency mortgage-backed securities. Beginning ~~later this month~~in January, the Committee will increase its holdings of Treasury securities by at least ~~\$70~~40 billion per month and of agency mortgage-backed securities by at least ~~\$35~~30 billion per month. ~~Beginning in December, the Committee will increase its holdings of Treasury securities by at least \$60 billion per month and of agency mortgage-backed securities by at least \$30~~20 billion per month. The Committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook. The Federal Reserve's ongoing purchases and holdings of securities will continue to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.



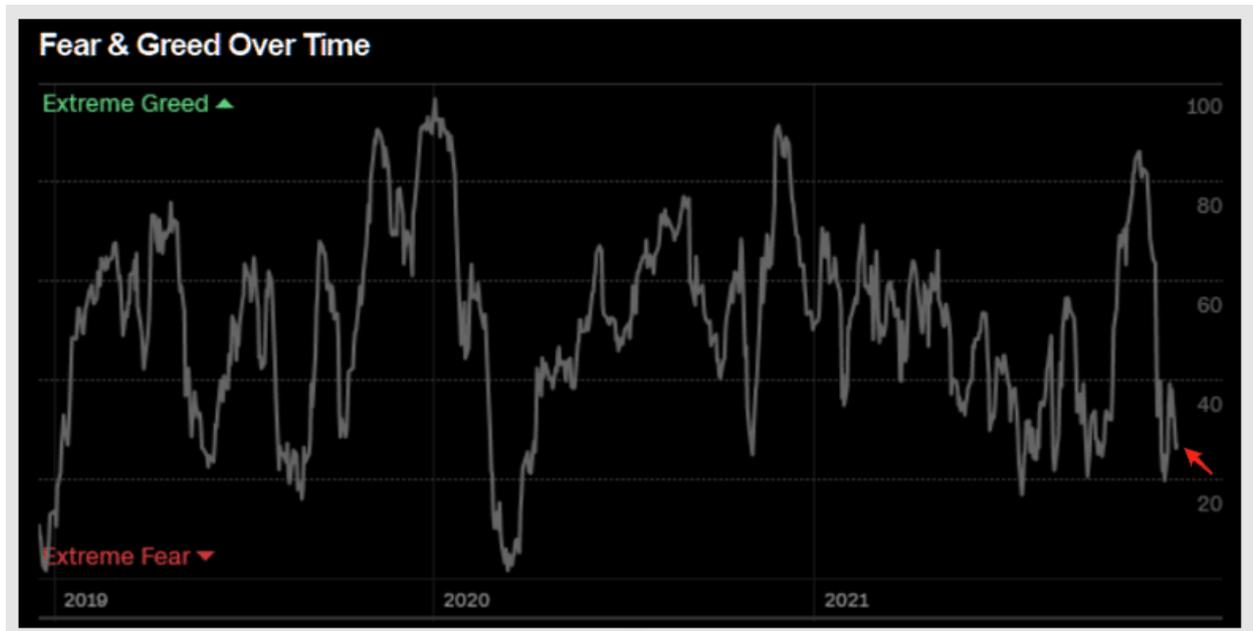
Retail Sales

November Retail Sales fell short of expectations, increasing 0.3% versus expectations of 0.8%, and last month's reading of 1.8%. As noted in prior commentaries, changing consumer habits due to Covid and shortages, along with seasonal adjustments that may further skew data, makes assessing this data extremely difficult. The table below from Brett Freeze shows the monthly data and year-over-year changes (yellow) broken out by sector.

	Nov 21	Oct 21	Sep 21	Aug 21	Jul 21	Jun 21	May 21	Apr 21	Mar 21	Feb 21	Jan 21	Dec 20	Nov 20	Nov 19	Nov 18	Weight	Current Contribution
Retail Total	\$639,829	\$638,190	\$636,999	\$632,181	\$631,350	\$625,405	\$620,119	\$618,751	\$623,119	\$559,970	\$574,466	\$555,912	\$541,341	\$522,805	\$506,973	100.00	0.36
N Change Current v Previous	0.26	2.05	-2.80	3.99	2.31	1.18	1.76	2.68	14.26	10.99	19.38	18.21	22.38	26.21	26.21		
N Change Current v Previous	18.21	16.26	14.16	15.69	15.32	18.86	28.03	33.42	29.71	6.50	9.40	2.31	3.53	8.12	3.46		
Retail Sales, Ex-Auto	\$513,340	\$511,418	\$502,551	\$499,439	\$488,908	\$491,387	\$495,272	\$487,864	\$487,887	\$444,228	\$456,387	\$441,525	\$429,720	\$416,235	\$406,277	80.23	0.27
N Change Current v Previous	0.34	2.15	2.70	5.00	4.04	3.78	5.33	5.26	15.56	12.48	21.78	19.46	23.33	26.35	26.35		
N Change Current v Previous	19.46	17.53	15.57	16.63	15.29	18.71	26.39	42.66	31.21	5.70	8.21	0.59	3.24	2.45	4.34		
Retail Control (Ex-Auto, Gas, Building Materials, Food Services)	\$344,162	\$344,273	\$338,443	\$337,770	\$338,711	\$334,967	\$329,650	\$331,012	\$334,328	\$308,411	\$319,192	\$294,138	\$302,937	\$276,216	\$268,969	53.79	(0.03)
N Change Current v Previous	-0.46	1.69	-1.89	1.70	2.75	1.40	3.34	2.88	11.58	18.82	17.01	13.61	24.46	27.48	27.48		
N Change Current v Previous	13.61	12.67	10.93	12.47	9.39	13.74	18.33	31.44	15.85	10.33	14.28	6.12	9.35	2.43	4.40		
Motor Vehicles and Parts	\$126,489	\$126,772	\$124,448	\$122,944	\$124,342	\$112,028	\$124,847	\$141,887	\$125,422	\$115,742	\$120,079	\$114,447	\$111,527	\$106,900	\$100,000	19.77	(0.01)
N Change Current v Previous	0.21	1.64	-2.88	0.12	(4.19)	(5.20)	(10.54)	(6.60)	9.29	5.34	10.52	13.42	18.68	25.61	25.61		
N Change Current v Previous	13.42	11.40	8.81	11.86	15.44	19.39	33.59	107.32	73.53	9.69	14.18	9.18	6.64	5.84	0.08		
General Merchandise Stores	\$70,654	\$71,506	\$70,474	\$70,665	\$68,273	\$68,999	\$67,394	\$69,417	\$71,144	\$62,909	\$66,933	\$60,777	\$61,964	\$59,968	\$59,962	11.04	(0.13)
N Change Current v Previous	0.18	0.26	(0.02)	0.26	3.49	4.84	1.75	(0.72)	12.31	5.56	16.25	14.21	17.94	17.83	17.83		
N Change Current v Previous	14.21	14.04	10.80	15.50	10.57	11.25	10.36	21.63	8.30	3.64	10.46	0.86	3.18	(0.01)	2.27		
Food and Beverage Stores	\$78,411	\$77,426	\$74,446	\$76,288	\$74,630	\$75,079	\$74,349	\$73,482	\$72,955	\$73,263	\$72,790	\$71,362	\$72,214	\$66,138	\$63,138	12.25	0.16
N Change Current v Previous	0.58	6.79	6.31	2.89	3.53	0.88	2.00	(11.83)	10.74	12.34	8.69	10.74	8.69	10.74	2.22		
N Change Current v Previous	17.73	17.99	17.76	17.09	17.09	17.09	17.09	17.09	17.09	17.09	17.09	17.09	17.09	17.09	17.09		
Food Services & Drinking	\$73,731	\$72,990	\$72,766	\$72,090	\$71,097	\$70,027	\$69,318	\$64,481	\$64,424	\$58,512	\$56,304	\$51,980	\$52,647	\$46,177	\$43,722	11.52	0.12
N Change Current v Previous	1.02	1.13	2.28	2.32	3.62	6.34	10.90	24.57	32.82	30.95	37.44	44.03	37.44	18.18	19.44		
N Change Current v Previous	37.44	30.36	30.41	32.23	38.01	40.73	74.82	122.25	37.12	(16.15)	(19.13)	(22.21)	(19.85)	5.33	4.90		
Gasoline Stations	\$54,868	\$53,976	\$52,043	\$50,304	\$49,483	\$48,308	\$46,636	\$45,008	\$44,453	\$42,203	\$40,895	\$39,096	\$36,015	\$42,840	\$43,722	8.58	0.14
N Change Current v Previous	1.43	5.43	9.07	10.89	13.58	17.63	19.78	18.12	30.01	34.17	40.83	52.83	26.89	25.49	25.49		
N Change Current v Previous	32.33	48.39	41.04	37.94	37.46	40.88	37.47	35.30	33.98	3.39	(11.38)	(11.38)	(16.71)	(1.10)	4.09		
Nonstore Retailers	\$92,154	\$92,138	\$88,532	\$88,903	\$89,334	\$88,003	\$87,817	\$88,975	\$88,886	\$84,234	\$87,028	\$74,474	\$82,111	\$64,774	\$60,368	14.40	0.00
N Change Current v Previous	(0.02)	4.09	3.66	9.79	4.72	1.82	3.68	9.29	3.89	23.74	12.09	42.27	52.91	42.27	52.91		
N Change Current v Previous	12.09	10.67	9.51	8.11	4.04	11.96	7.86	16.11	29.89	28.54	33.40	15.37	26.92	7.48	12.82		
Building Materials	\$40,579	\$40,279	\$39,399	\$39,275	\$38,657	\$39,095	\$39,448	\$41,041	\$44,458	\$38,082	\$39,996	\$37,099	\$37,121	\$31,312	\$30,855	6.34	0.05
N Change Current v Previous	0.74	3.26	3.32	4.97	3.80	2.35	(3.48)	(6.42)	6.56	9.38	8.32	29.60	31.52	29.60	31.52		
N Change Current v Previous	9.32	9.80	8.11	7.04	7.46	7.50	10.28	30.63	32.45	15.74	21.49	16.11	18.55	1.48	8.03		
Health and Personal Care	\$33,456	\$33,855	\$32,304	\$33,424	\$32,389	\$33,559	\$31,138	\$31,113	\$32,081	\$29,691	\$30,304	\$29,529	\$28,520	\$28,899	\$29,077	4.95	(0.03)
N Change Current v Previous	(0.41)	(2.01)	(2.37)	(2.26)	(2.77)	1.66	(1.42)	(1.32)	6.62	4.81	5.77	7.24	11.08	8.87	8.87		
N Change Current v Previous	7.24	6.60	7.78	10.22	8.65	14.90	18.62	23.71	5.21	2.16	4.61	5.54	3.58	(1.99)	4.73		
Cloning	\$16,491	\$16,349	\$16,293	\$16,776	\$16,776	\$16,444	\$16,586	\$16,460	\$16,012	\$16,180	\$16,351	\$16,095	\$16,657	\$16,272	\$16,535	4.14	0.02
N Change Current v Previous	0.34	0.75	2.77	2.77	0.10	3.54	7.42	3.91	31.27	24.07	31.83	34.77	18.94	17.55	17.55		
N Change Current v Previous	34.77	26.70	23.24	37.99	42.67	52.43	204.81	769.53	117.61	(10.55)	(6.80)	(12.41)	(11.74)	(1.17)	2.12		
Miscellaneous Store	\$14,886	\$14,929	\$14,475	\$14,226	\$13,902	\$13,734	\$13,169	\$13,609	\$13,746	\$13,394	\$12,744	\$12,667	\$12,028	\$11,445	\$10,779	2.33	(0.01)
N Change Current v Previous	(0.38)	1.44	4.44	7.08	8.39	13.04	9.38	8.29	20.11	16.81	17.52	23.76	30.07	38.10	38.10		
N Change Current v Previous	23.76	28.53	25.07	21.91	20.83	24.81	48.02	84.68	39.21	5.88	9.23	12.99	10.09	6.18	1.78		
Electronics Stores	\$7,979	\$8,383	\$8,130	\$8,131	\$8,496	\$8,593	\$8,238	\$8,446	\$8,339	\$7,889	\$7,525	\$6,464	\$6,851	\$7,514	\$7,714	1.25	(0.04)
N Change Current v Previous	(4.31)	(1.45)	(1.40)	(1.62)	(1.61)	(2.78)	(1.58)	(4.08)	12.84	6.30	23.90	16.76	6.45	3.69	3.69		
N Change Current v Previous	16.76	17.84	18.23	16.29	21.70	43.12	92.80	139.47	35.93	(3.96)	0.78	(13.89)	(8.80)	(2.18)	(2.58)		
Furniture and Home	\$12,447	\$12,446	\$12,109	\$12,247	\$12,055	\$12,093	\$12,396	\$12,351	\$12,414	\$11,471	\$12,098	\$10,611	\$10,795	\$10,219	\$9,921	1.95	0.00
N Change Current v Previous	0.01	2.79	3.83	3.25	2.98	1.31	(0.83)	0.27	8.51	2.88	17.19	21.80	25.51	25.51	25.51		
N Change Current v Previous	16.27	14.54	11.68	13.27	16.52	19.69	67.18	201.71	50.93	9.71	15.49	6.32	4.76	8.05	(0.20)		
Spending Goods	\$9,444	\$9,341	\$9,277	\$9,920	\$9,256	\$9,449	\$9,383	\$9,749	\$9,911	\$8,880	\$8,379	\$7,317	\$7,887	\$6,413	\$6,579	1.48	0.02
N Change Current v Previous	1.32	2.02	6.22	2.25	0.16	(1.24)	(2.50)	(4.70)	17.86	10.32	22.32	19.99	42.68	43.85	43.85		
N Change Current v Previous	19.99	16.38	14.15	18.39	14.16	10.49	43.46	158.53	76.02	18.63	26.93	15.44	18.91	0.82	(7.91)		

Can The Santa Rally Start Now

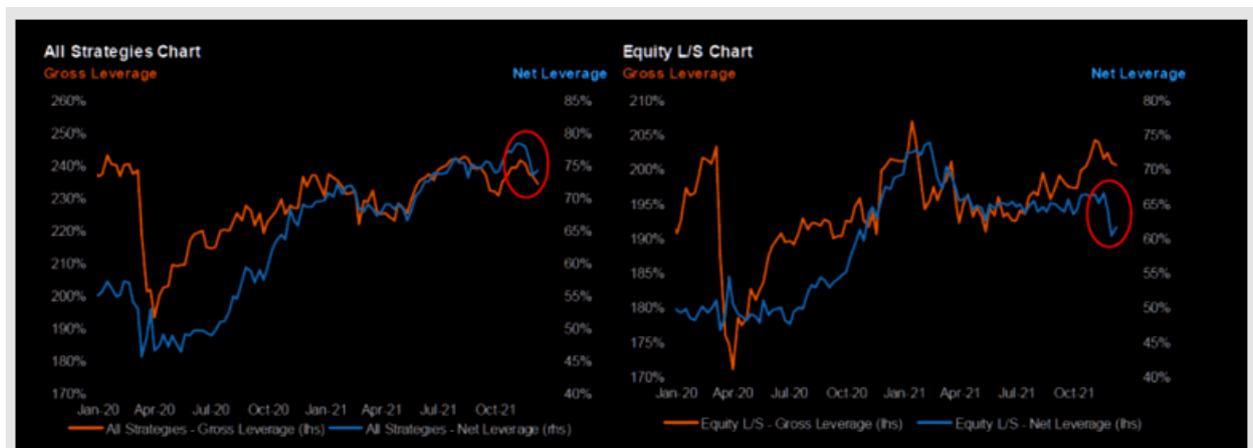
After a rough couple of days to start the week, and with the Fed behind us, the seasonal Santa rally looks set to start as money managers put cash to work for year-end window dressing. With fear levels fairly elevated, plenty of cash from recent mutual fund distributions, and buy signals intact, we will look to add exposure to portfolios over the next couple of days.



As noted by @themarketear yesterday ahead of the Fed double taper.

"There has been a lot of selling and de-risking, we basically outlined how "under risked" people were going into this Fed meeting. Below is McElligott's take on the same topic:"

- Total SPX options \$Delta has now come off last Thursday's \$562B (99.2%ile) down to today's \$88.2B (41.7%ile);
- The epicenter of the recent Fed / Rates ?driven thematic Equities storm Nasdaq / QQQ options shows net \$Delta there from \$20.4B last Thursday (99.2%ile) down to -\$5.6B this morning (12.6%ile);
- IWM where a HUGE portion of the hedging has been, houses a monster -\$17.7B of short \$Delta (0.3%ile), with -\$7.6B of that rolling-off for expiry on Friday which will need to be dealt with;
- Our models show US Equities Vol Control having de-allocated / sold ~\$78B over the past 1m and ~\$112B over the past 3m,
- While CTA Trend has sold \$64B of Global Eq futs / \$26B of US Eq futs over the past 1m; and
- Street PB data showing Equities HFs at low single-digit percentile ranks for both Nets- and Grosses- on 1Y lookback". The crowd is "under risked" and Santa kick starts around this time.



Perspective Matters On Yesterday's High Fliers

Many of the meme/go-go stocks that rose to astonishing heights earlier this year are getting smashed. While the losses are startling, the graph below, courtesy of the New York Times, shows two such stocks and puts the recent losses and prior gains into proper context. As it shows, Peloton, despite giving up 450% of its gains over the last two years, is on par with the market. Zoom is still holding on to 200% gains for the previous two years, well above the market's performance.

Share price performance since the start of 2020



Source: Sentieo • By The New York Times

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