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Omicron is surging. The Fed will double the pace of tapering. PPI rose 9.6% from last year. Is Build Back Better dead?

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The Hot List

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1. COVID-19

New York reports (<https://www.nbcnewyork.com/news/coronavirus/this-is-a-whole-new-animal-breakthrough-infections-rattle-nyc-amid-omicron-surge/3456543/>) highest single-day case total of the pandemic as Omicron grows exponentially.

2. Federal Reserve



The Federal Reserve concluded their **December meeting** (<https://www.federalreserve.gov/newsevents/pressreleases/monetary20211215a.htm>) last Wednesday. They announced that they would double the pace of taper to \$30B. Powell also mentioned that their focus has shifted to employment in determining when to raise rates.

3. Inflation

The Labor Department announced that PPI rose (<https://www.cnbc.com/2021/12/14/wholesale-prices-measure-rises-9point6percent-in-november-from-a-year-ago-the-fastest-pace-on-record.html>) 9.6% since last November, the fastest since November 2010. (<https://www.investors.com/news/economy/federal-reserve-meeting-wall-street-expects-yield-curve-control/>)

4. Employment

Weekly jobless claims rose slightly from the prior week which was a **52-year low** (<https://www.cnbc.com/2021/12/16/us-jobless-claims.html>).

5. Capitol Hill

The Build Back Better plan takes a hit (<https://abcnews.go.com/Politics/manchin-bidens-build-back-social-spending-plan/story?id=81843089>) after Joe Manchin says he's a "no."

Last Week

Monday: S&P 500 -42.87 (-0.91%) to 4669.15. No major headlines.

Tuesday: S&P 500 -35.06 (-0.75%) to 4634.09. PPI rose fastest on record.

Wednesday: S&P 500 +75.75 (+1.63%) to 4709.84. December Fed meeting concluded.

Thursday: S&P 500 -41.17 (-0.87%) to 4668.67. Weekly jobless claims rose from 52-year low.

Friday: S&P 500 -48.03 (-1.03%) to 4620.64. Investors assess Omicron surge.

Technical Look

Possible Support: To the downside on the S&P 500, the 4500 level is the spot to watch.  has served as major support for a while but if it breaks, there may not be support until 4300.

Possible Resistance: The 4700 level on the S&P 500 was tested yet again last week only to sputter again. If the S&P can break above that level to the upside, there is no technical resistance in sight.

My Watchlist

Defensive

Luxury

Fintech

Value

Discount Retail

My Take

As expected, the choppiness in the S&P 500 continued for yet another week. This volatility reflects the uncertainty around how quickly the Federal Reserve may start to tighten, in addition to how much this new Omicron variant is going to mess up the economy.

The Fed concluded their December meeting last week and the interesting point Powell made was that he was focused on getting to full employment before starting to raise rates. I think this may give him room to tighten sooner than expected. This may sound like a bad thing for stocks, but when you are raising rates for the right reason — a strong economy — it should be a positive. What we don't want is the Fed raising rates because they are behind the eight ball when it comes to inflation — which is still currently up for debate.

At the moment, it seems investors will be watching the Omicron variant this week. The surge in cases is certainly high but what is important is number of hospitalizations and chances of lockdowns.

In the meantime, I expect the S&P to stay range bound between 4500 and 4700 until we get some substantial news that would lead to a breakout. It's always important to remember that financial news networks will try to make a headline anytime they can. However, in many cases, these moves are just normal price action. So, bottom line: don't chase the daily headlines. Look for signals in the actual economy that could take us higher, or lower.

If you're a long-term investor, consider adding to your favorite long-term names on any significant pull backs. If you're short-term or have already retired, then you may want to stay defensive as I expect the choppiness to remain until we get further clarity on the state of the economy.

Anyways, if you need help or would like me to manage your investments, please **contact DreamWork Financial Group** (<https://dreamwork.financial/contact/>) today.

Until next time,

Clint Kirby

Chief Financial Strategist

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