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Wealth Advisory Market Update

December 16, 2021

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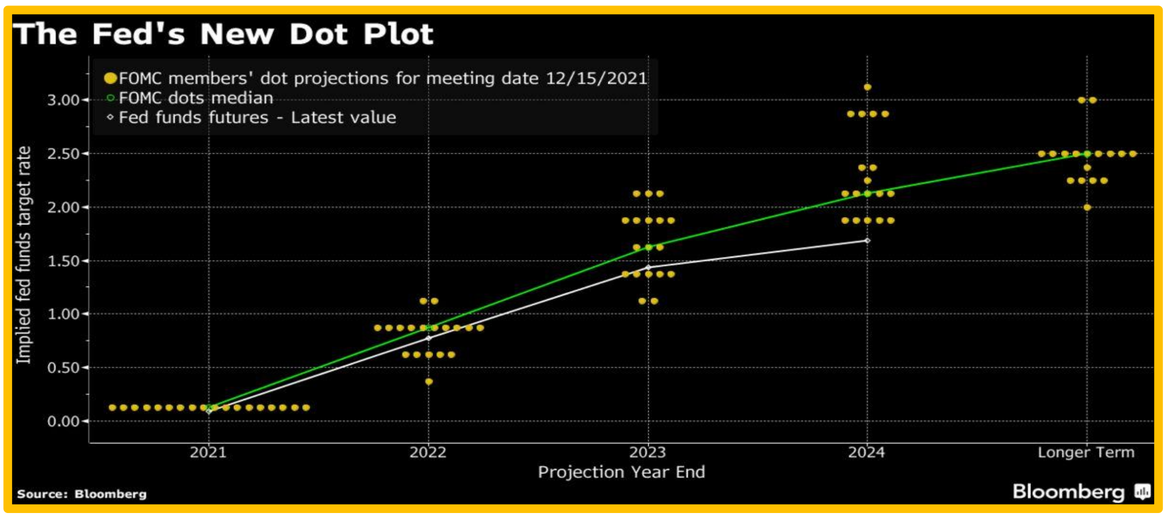
Market Update

The Federal Reserve announced yesterday that it will reduce Quantitative Easing to $30B a month and then reduce again in January. This will put the Fed on course to end asset purchases in March of 2022, three months earlier than projected at their last meeting. The Fed also expects three interest rate hikes in 2022. Our belief is that the Fed has become more aggressive due to the recent inflation prints hitting the tape. As we stated in previous letters, inflation is stickier than what the Fed has been projecting. They are finally in step with our observations as seen in their latest inflation projections. They now see 2.6% for headline PCE (Personal Consumption Expenditures), up from 2.2%. Core PCE was moved up to 2.7% from 2.3%.

To sum up the key points:

- The Fed doubled the pace of the tapering they had previously expected (to $30 billion)
- Inflation is expected to be higher than previously thought and to last longer than anticipated
- Rate hike odds were moved forward significantly as seen in the chart below



The market reaction so far has been risk-on, with the Beta heavy Nasdaq leading the way. We see this price action because even though the announcement was seen as hawkish, the presser was seen as dovish as Powell verbally walked back the more aggressive outlook. With inflation running rampant and US GDP growth expected to expand again next year, our view is that the Fed should have been more aggressive. Our preference would have been an immediate end to QE and a rate hike in the first quarter of 2022. We believe the Fed runs the risk of having no policy tools to use in the face of the next recession. We remain steadfast in our belief that we need to be positioned in quality/value over growth in the equity markets. This announcement does nothing to change our opinion that there is a massive bubble in growth stocks and we want to avoid those spaces.

As always, we continue to navigate this difficult environment to the best of our ability. We at AMB thank you for your support and for allowing us to partner with you in reaching your financial goals.

Matthew J. Roach, CFA®
Director of Portfolio Management