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In this week's recap: Despite Omicron concerns, stocks end year mostly positive, with strong holiday sales figures.

Weekly Economic Update

Presented by Ed Papier, January 3, 2022

THE WEEK ON WALL STREET

Stocks closed out the year on a mostly positive note, adding to the year's gains as concerns about the economic issues of Omicron infections receded.

The Dow Jones Industrial Average rose 1.08%, while the Standard & Poor's 500 picked up 0.85%. The Nasdaq Composite index was flat (-0.05%) for the week. The MSCI EAFE index, which tracks developed overseas stock markets, posted an increase of 0.80%.[1,2,3]

STOCKS NOTCH RECORD HIGHS

The end of the year is historically a strong period for stocks–a seasonal pattern dubbed "The Santa Claus Rally." This year's final week of trading did not disappoint as stocks posted healthy gains to kick off the week, despite a global increase in Omicron infections. Investors were buoyed by data that showed fewer associated hospitalizations, which helped ease fears of the variant's economic impact.

The S&P 500 set multiple fresh record highs, with Wednesday's new high representing the 70th such high in 2021, while the Dow Industrials recorded its first new record since November. Stocks drifted on low trading volume in the final two trading days of the year, capping a good week, a solid month, and a strong year for investors.[4]

ROBUST HOLIDAY SALES

The market got off to a good start last week in part due to a strong holiday sales report. A major credit card issuer reported that consumer holiday spending rose 8.5% from last year's levels, driven by an 11.0% gain in online sales. It was the biggest annual increase in 17 years. The spending by consumers exceeded pre-pandemic sales by 10.7%. The retail categories that experienced the highest sales increases were apparel (+47.3%) and jewelry (+32.0%).[5]

It was a particularly robust number in view of investor concerns about supply chain disruptions, port congestion, labor shortages, and wavering consumer confidence.

THE WEEK AHEAD: KEY ECONOMIC DATA

Tuesday: JOLTS (Job Openings and Turnover Survey). Institute for Supply Management (ISM) Manufacturing Purchasing Managers' Index (PMI).

Thursday: Jobless Claims. Factory Orders. Institute for Supply Management (ISM) Non-Manufacturing Purchasing Managers' Index (PMI).

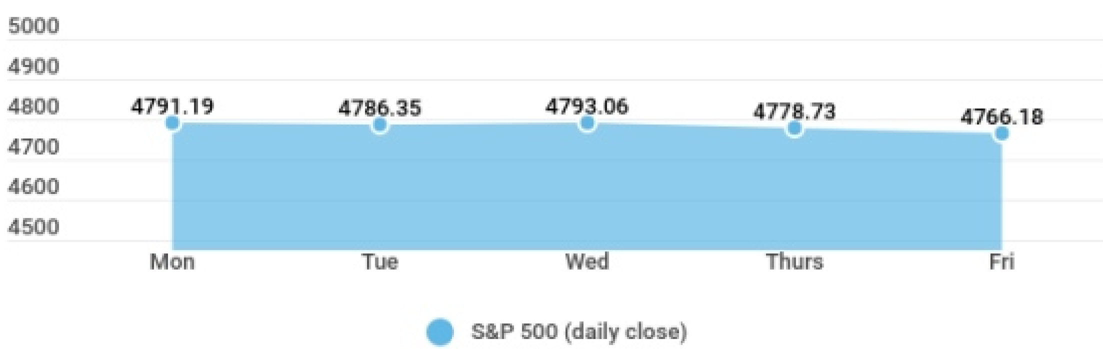
Friday: Employment Situation.

QUOTE OF THE WEEK

"Never attribute to malice
that which is adequately explained by stupidity"

ROBERT J. HANLON

Market Index	Close	Week	Y-T-D
DJIA	36,338.30	+1.08%	+18.73%
NASDAQ	15644.97	-0.05%	+21.39%
MSCI-EAFE	2,334.61	+0.80%	+8.71%
S&P 500	4,766.18	+0.85%	+26.89%



	Treasury	Close	Week	Y-T-D
	10-Year Note	1.52%	+0.11%	+0.59%

Sources: The Wall Street Journal, December 31, 2021; Treasury.gov, December 31, 2021
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Thursday, December 23, to Friday, December 31, close. Weekly performance for the MSCI-EAFE is measured from Friday, December 24, open to Thursday, December 30, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

New Year's greetings. 2022 should be an interesting year. The broad market index just hit a new record high – again! But price is one thing. Does the S&P 500 have the earnings to back it up? The S&P 500's current valuation, when compared to its historical valuations going back to 1871, reveals a stock market with significant risks. As of the December 30 market close, the Cyclically Adjusted Price Earnings (CAPE) ratio is 40.09. Yes, I've been saying it for some time, but we're at extremes now. That's over 137 percent higher than the CAPE ratio's long-term historical average, and well above the 32.6 ratio reached in September 1929. The only time the CAPE ratio has been higher is for a brief moment at the dot com bubble peak, in December 1999, in the run-up to the new millennium, when it hit 44.2.

Following both of these ratio peaks, September 1929 and December 1999, the stock market crashed in spectacular fashion. In short, based on the current CAPE ratio, the S&P 500 is now well over double the cost of its historical average. The NASDAQ and DJIA are also both at nosebleed levels.

Similarly, the Buffett indicator, which is a ratio of the total market capitalization over gross domestic product, shows that the overall stock market is significantly overvalued. The ratio currently stands at about 209.5 percent. A fairly valued market is a ratio somewhere between 98 and 119 percent. Anything above 141 percent is considered significantly overvalued.

Successful long term index fund investing involves buying when the market index is cheap – when the CAPE ratio is below 15 or the Buffett indicator is below 76 percent. Based on the CAPE ratio and the Buffett indicator, the U.S. stock market is currently significantly overvalued. Moreover, it continues to be propelled dangerously upward by central bank credit pumping; real tightening will not be occurring.

So as we commence the New Year, the major U.S. stock market indexes are at risk of a significant correction. Meanwhile, with inflation raging out of control, bonds and cash are likely to yield negative real returns as well. In addition, we find economic and political policies out of various states and Washington are trashing the foundations of economic life and civilized society with unprecedented precision. Some of some of the unintended consequences that government interventions have included: Price inflation, upply chain disruptions, labor and energy shortages, food and fertilizer scarcity, extreme wealth disparity, and of course, stock, bond, and real estate bubbles.[6]

Regardless of how expensive the stock market indexes are, and no matter how delusional investor expectations are for future returns, we must nonetheless do something with savings and investment capital. Accordingly, our prediction is 2022 will be the 'Year of the Alternative'. Categories include: Private debt, private equity and real estate on a primary and secondary basis, equipment and aircraft leasing, direct and co-investments, venture investing, direct secondaries, options trading (to hedge long positions), multi-alternative, general partner interests, litigation finance, energy, and other special situations.

Let's toast the New Year to a Covid-less 2022 and a return to normalcy!

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Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. The Wall Street Journal, December 31, 2021
2. The Wall Street Journal, December 31, 2021
3. The Wall Street Journal, December 31, 2021
4. CNBC, December 29, 2021
5. CNBC, December 27, 2021
6. economicprism.com/how-to-survive-the-mega-collapse-of-2022/#more-7869