Capital Market Review

By: Joe Clark, CFA, Allegheny Research Team

The Week Ending December 3, 2021

What looked like another positive month heading into Thanksgiving quickly changed as the Omicron variant of COVID-19 was discovered in South Africa. The discovery of Omicron led to stock market volatility as traders sold stocks for bonds, sending the S&P 500 Index to a 0.7% loss for November. The small-cap Russell 2000 Index closed the month down 4.2%, after being 2.2% higher before Thanksgiving.

If the stock market hates one thing, it's uncertainty, which is exactly what Omicron has caused. It didn't help that the news broke before markets opened on Black Friday, one of the lowest liquidity days of the year, which only exasperated the sell-off. It also didn't help that each news outlet appeared to have a different forecast of what the latest COVID-19 variant would mean for the world. One report said Omicron is 500 times more contagious than the Delta variant. JPMorgan Market Strategists proved this report to be impossible because if it was true, the world's population would have been infected in less than one week. The stock market once again overreacted when a confirmed case of Omicron was found in the U.S.; stocks reversed from a robust, positive day to a sharply negative one.

As if Omicron wasn't enough to stir volatility, the Federal Reserve did its part to continue the end-of-month negative news trend. During a Senate hearing, Fed Chair Jerome Powell said they would consider quickening the pace of tapering asset purchases, set initially to end mid-2022. After eight months of inflation readings above the Fed's 2% target, Chair Powell decided it was finally time to "retire" calling inflation transitory. The Fed's challenge now will be managing their dual mandate of full employment with low and stable inflation. Tighter policies, including higher interest rates, may be warranted to battle the inflation side. However, tighter policies paired with COVID-19 uncertainty could pose a challenge in how much tightening the market can handle.

As we have become accustomed to, the stock market is focused on headlines and making knee-jerk reactions. Whether it's COVID-19, the Fed, or a various other reasons, maintaining the status quo provides the best chance of long-term success. The stock market is typically irrational at new pieces of news, especially potentially adverse events. If investors can remain rational, stick with their diversified portfolio, and even invest more in volatile times, they will have the highest probability of achieving their long-term goals.

811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com