

Market Struggles as Fed Does the Expected

After the S&P 500 ended last week at a closing record high, the benchmark index fell 1.9% this week, as investors took profits and digested the FOMC policy decision. The Russell 2000 (-1.7%) and Dow Jones Industrial Average (-1.7%) both declined 1.7% while the Nasdaq Composite (-3.0%) underperformed with a 3.0% decline.



As expected, the Fed left the target range for the fed funds rate unchanged at 0.00-0.25%, said it will double the reduction of asset purchases to \$30 billion per month (\$20 billion for Treasuries and \$10 billion for agency MBS), and signaled three rate hikes in 2022 amid expectations for continued inflation pressures.

On a related note, the Producer Price Index for November came in hotter than expected, with the index for final demand up 0.8% month-over-month (Briefing.com consensus 0.5%) and up 9.6% year-over-year.

Interestingly, the only day the S&P 500 closed higher was Fed decision day, and that was largely due to short-covering activity on the view that Fed Chair Powell didn't sound as hawkish as feared. The

market fumbled that rally over the next two days, leaving the sectors mixed by week's end.

The information technology (-5.1%), consumer discretionary (-4.3%), and energy (-5.0%) sectors were the weakest performers with losses over 4.0%. The defensive-oriented health care (+2.5%), real estate (+1.6%), consumer staples (+1.2%), and utilities (+1.2%) sectors rose more than 1.0%.

With Apple (AAPL) nearly hitting a \$3.0 trillion market capitalization, investors presumably felt it was appropriate to take profits, especially when also taking into consideration downside guidance from Adobe (ADBE) and the continuing spread of the coronavirus.

The 10-yr yield fell nine basis points to 1.40% amid increased demand while the 2-yr yield decreased two basis points to 0.64% despite the Fed signaling three rate hikes next year.

Elsewhere, the Bank of England increased its bank rate by 15 basis points to 0.25% in a surprise move. The European Central Bank and Bank of Japan left rates unchanged, as expected,

and announced a further tapering of asset purchases.

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