

Fed Game Plan

Confirmation from the Federal Reserve that the economy has reached a level improvement that allows a reduction in COVID-era policy accommodation rallied the S&P 500 Index to all-time highs last week. The S&P 500 finished the week +2.0%, the Dow was +1.4% and the NASDAQ was +3.2%. The U.S. 10-year Treasury bond yield decreased to 1.451% at Friday's close versus 1.554% the previous week.

Current quarterly forecast for the S&P 500 Index is for earnings to be +41.5% year-over-year versus an expectation of +39.2% last week. At the outset of the earnings season in early October, the third quarter year-over-year growth was expected to be 29.4%. This week 13 companies in the S&P 500 are scheduled to report earnings.

As expected, the Federal Reserve laid out its framework for reducing monthly bond purchases (a.k.a. "the Taper") that should last into mid-2022. At that point, the Fed can address the Fed Funds target rate depending on factors such as employment and inflation.

Initial unemployment claims for the week of October 30th decreased to 269,000 versus the previous week at 283,000. Continuing claims for October 23rd were 2.105 million versus 2.239 million the week prior. The October employment report supported the Fed's move to begin the Taper with 531,000 new jobs created for the month and the unemployment rate dropping to 4.6%.

In our *Dissecting Headlines* section, we review the Fed's current game plan with the Taper.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	2.0%	26.6%	Aggregate Bond Index	0.6%	-0.8%
Dow Jones Industrial Average	1.4%	20.5%	U.S. Dollar Index	0.2%	4.9%
NASDAQ 100	3.2%	27.7%	WTI Crude Oil	-1.7%	69.3%
Russell 2000 (Small Cap Index)	6.1%	24.4%	Gold	1.9%	-4.2%
International Stocks (MSCI ex-US)	1.2%	8.9%	Real Estate (US REIT Index)	1.7%	31.4%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Taper Time

The Fed announced the beginning of a reduction in its monthly asset purchases (a.k.a. "the Taper"). Since the start of the pandemic, the Fed has been buying \$80 billion in Treasury Bonds and \$40 billion in housing-backed securities each month. The Fed announced that in mid November and December it will reduce the amount of Treasury securities purchases by \$10 billion and mortgage-backed securities by \$5 billion. It expects to continue that pace in the months ahead. It should phase out the bond buys completely by next June. At that point, the Fed can consider an adjustment to the Fed Funds target rate which is currently at 0% to 0.25%.

This announcement was based on the economy meeting the criteria to remove the excess liquidity. Inflation, as we have seen, is above the long-term target rate of 2% and employment has been improving, even if it has been lumpy in its recovery. The October employment report showed 531,000 new jobs created and the employment rate dropping to 4.6%. This provided investors with sufficient evidence the Fed's plan to retract its accommodative policy stance was inline with what is happening in the economy without causing any disruption.

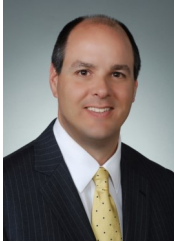
Based on the progress of the Taper, we would expect an initial increase in the Fed Funds rate some time in the third quarter of 2022. Depending on where the economic data progresses from here, we may see speculation for the Fed to adjust the pace of the taper and/or alter its potential timeline for changes in the Fed Funds target rate.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).

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