improving, with the unemployment rate declining to 4.2% in November 202to

U.S. Treasuries are considered a safe haven by investors, and they are attractive during times of economic stress. At

economic activity continued to accelerate in the first half of the year. Then, renewed coronavirus uncertainties related to the Delta variant and inflation concerns led to spreads bouncing between 86 bps and 95 bps over the next several months. The most recent Omicron variant and the resulting market reaction and volatility resulted in spreads widening from the mid-90s just before the Thanksgiving holiday to 104 bps in just one week. Spreads have since recovered modestly to close at 100 bps as of Dec. 13, yet near the widest levels of the year.

Graph 3: Investment-Grade Corporate Credit Spreads, YTD December 2021

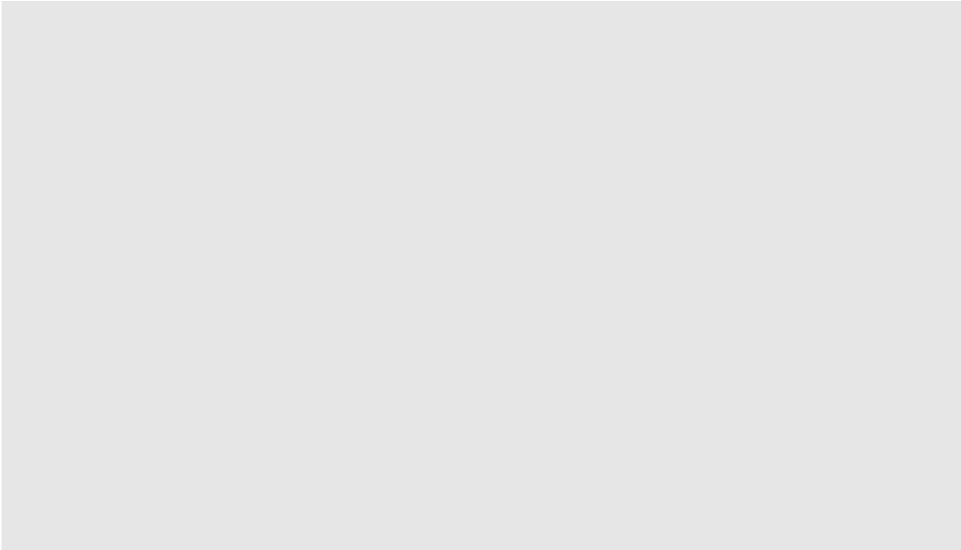
Source: Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System (U.S.).

High-yield spreads were somewhat more volatile than investment-grade spreads in 2021 but were tighter overall with high-yield issuers continuing to benefit from abundant market liquidity and access. Spreads began the year at just under 400 bps and dropped to about 300 bps in July, the lowest level since before the financial crisis (see Graph 4). In the second half of the year, spreads widened as investors repriced growth and inflation assumptions and new COVID-19 variants worried market participants. Spreads widened from about 300 bps to 340 bps in August following the Delta surge; then, with the news of the Omicron variant, spreads widened by 50 bps in just one week to end November at 367 bps. High-yield spreads rebounded to begin December, closing at 333 bps on Dec. 13, below the pre-pandemic levels of approximately 350 bps.

Omicron or next variant is worse than expected. However, the bigger influence is inflation, which continues to be affected by supply and worker shortages, as well as high consumer demand.

The S&P 500 YTD return through mid-December 2021 was 24.3%, having been on a relatively steady incline for most of the year (see Graph 5). In comparison, total return for the S&P 500 in 2020 was 18.4%. The STOXX Europe 600 returns also steadily increased during 2021 and had a YTD return of 18.7% through mid-December, after reaching a high of about 22% a month prior. In addition, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX) experienced a spike of 54% on Nov. 26, one of the five largest single-day volatility moves in the last three decades. However, the VIX was down 4.79% YTD as of Dec. 15, due partly to the Federal Reserve of a faster wind-down of its bond-buying program and an anticipated move to raise interest rates three times in 2022 to stave off inflation. Economic data shows that in November, consumer prices increased at the fastest annual rate since 1982.

Graph 5: S&P 500 YTD December 2021, % Returns



Source: Wall Street Journal.

In terms of S&P 500 sectors, all 11 experienced positive returns YTD as of Dec. 14. The largest three sector returns were energy (+46.8%), real estate (+36.4%), and technology (+32.5%). In comparison, for the same time period last year, four sectors experienced negative returns: real estate (-6%), energy (-34%), financials (-7%), and utilities (-3%).

‡ y o common stock, total return YTD through November 2021 was 20.45%[3] compared to 23.41% for the S&P 500 over the same time period. As of year-end 2020, U.S. stock was $993 billion.

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