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Market Outlook – January 2022

Macro Economic Update

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Inflation:

Consumer Price Index (CPI): Retail inflation rose to a three-month high of 4.91% in November with food prices rising too and despite cut in levies on fuel. The food inflation - determined by the consumer food price index rose to 1.87% in November ‘21, compared to 0.85% in October ‘21.

Wholesale price index (WPI): Inflation in wholesale price inflation (WPI) was in double digits for the 8th straight month and this is the highest level of wholesale inflation in the 2011-12 series. WPI in November rose 14.23% from 12.54% a month ago, mainly on rise in food prices and minerals and petroleum products.

Deficit:

Fiscal Deficit: The Centers fiscal deficit worked out to be Rs 6.96 lakh crore or 46.2% of the budget estimates at the end of November. The deficit figures in the current fiscal appear much better than the previous financial year when it had soared to 135.1% of the estimates mainly on account of jump in expenditure to deal with the pandemic.

Trade Deficit: India's exports in December ‘21 rose 37.0% on an annual basis to $37.29 billion, which was the highest ever goods export in the history of India; while imports rose to $59.27 billion, an increase of 38.1% annually. The trade deficit in December ‘21 was $21.99 billion, while it was $143.97 billion during April-December ‘21.

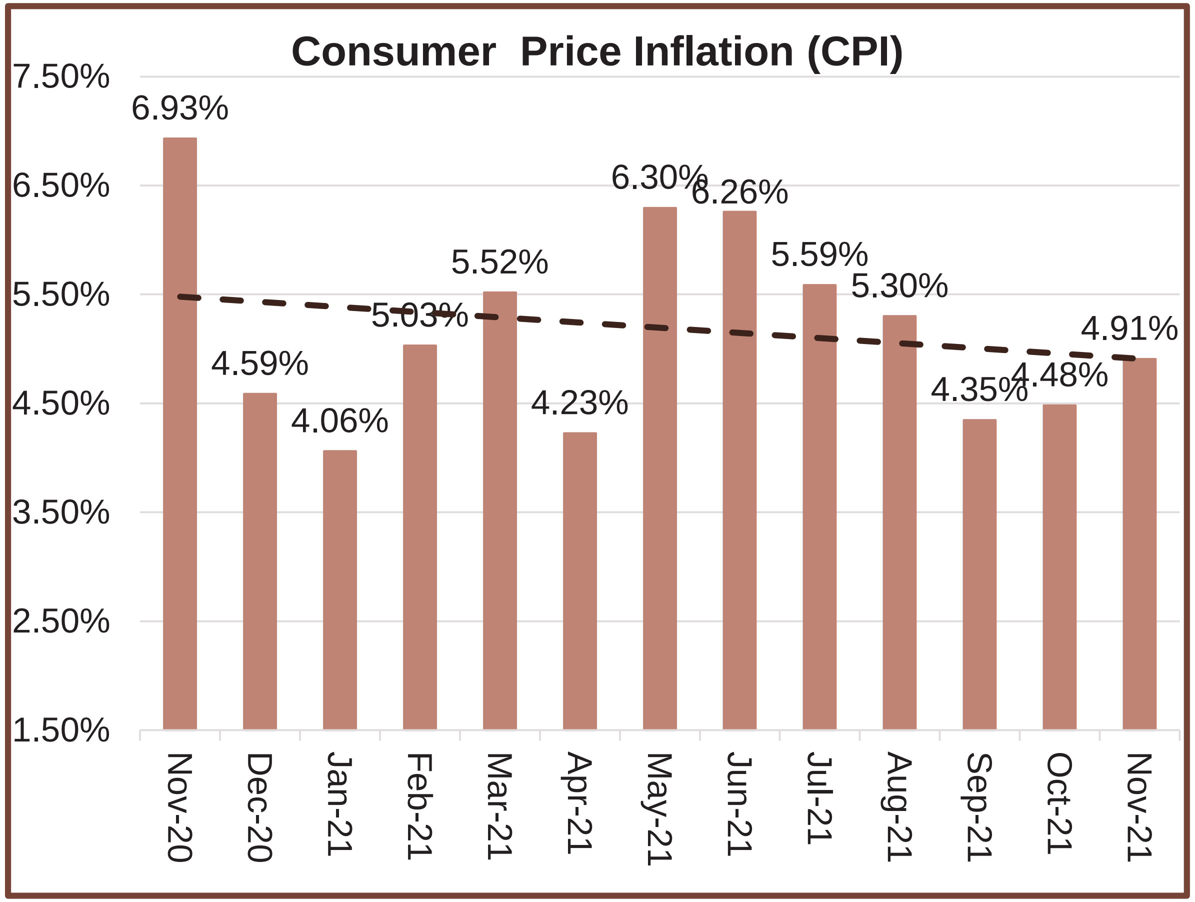
IIP, Core Sector and PMI:

Index of Industrial Production (IIP) & Core Sector: Industrial production growth slipped to 3.16% in October, mainly due to the waning low base effect while mining and electricity sectors performed well. For the month of November, the 8 core sectors which comprise of 40.27% of IIP grew by 3.1%.

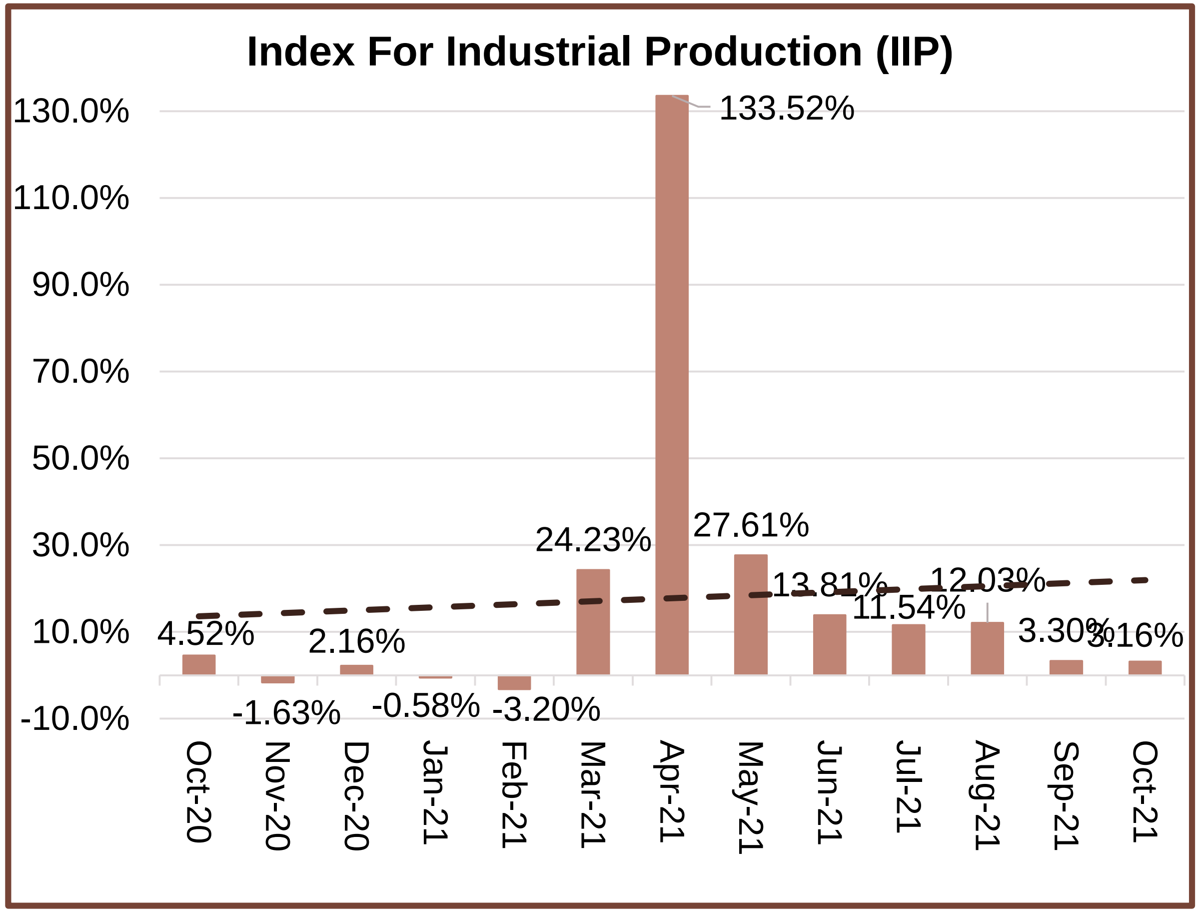
Manufacturing & Services PMI: India’s manufacturing PMI eased to 55.5 in December, from November's ten-month high of 57.6 even as business sentiment was dampened by concerns surrounding supply-chain disruptions, COVID-19 and inflationary pressures. The Services PMI was at 55.5 in December compared with 58.1 in November.

Inflation and Industrial Production Trajectory

After being above the RBI upper tolerance level for in May & June 2021; July to November 2021 witnessed inflation dipping below the same.



Industrial Production grew at a moderate pace in October '21 as the low base effect started waning off.



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For **Client** Circulation.

Source: DBIE, RBI

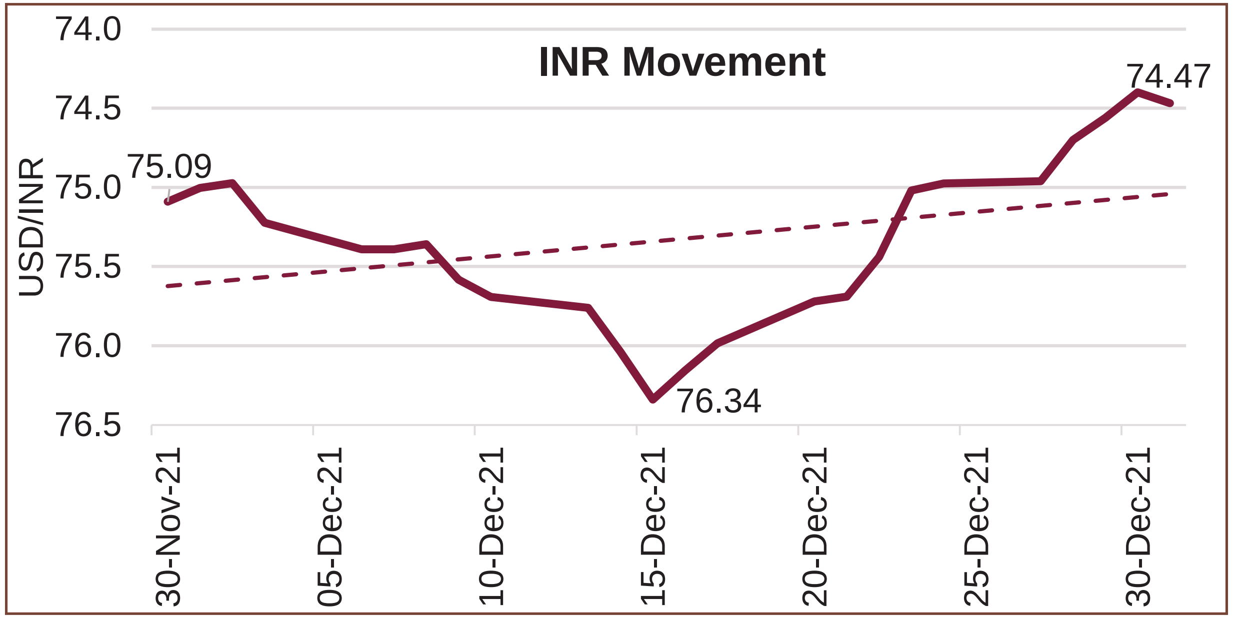
Macro Indicators

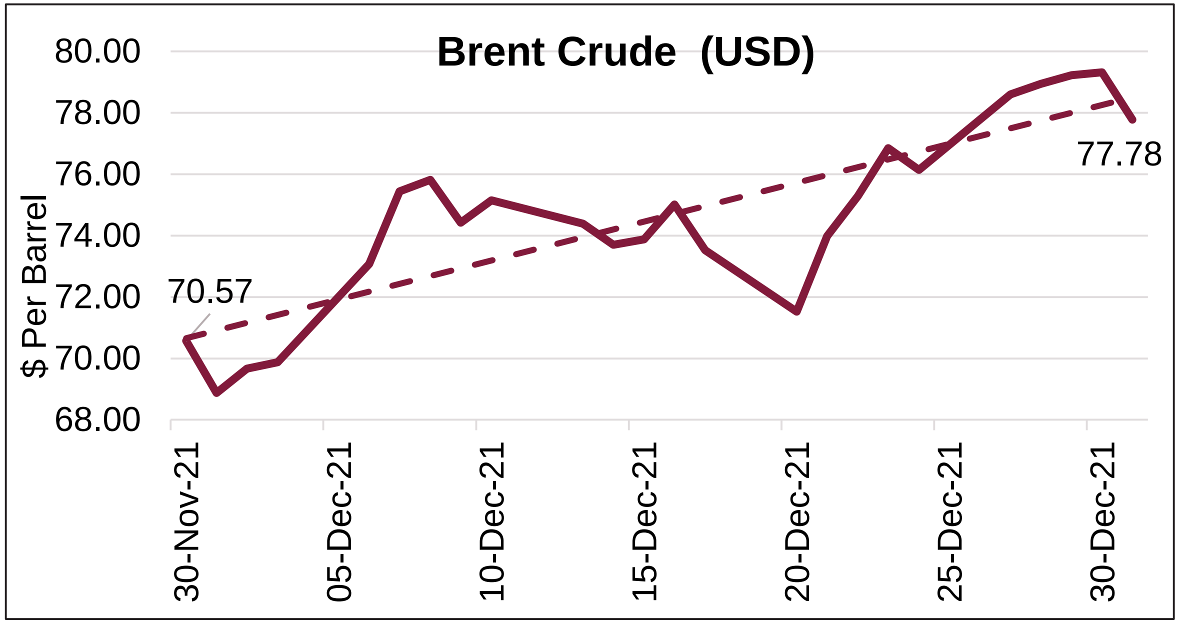
	Current	Month Ago	Quarter Ago	Year Ago
Economic Indicator				
Consumer Price Index (CPI)	4.91% (Nov-21) ↓	4.48% (Oct-21)	5.30% (Aug-21)	6.93% (Nov-20)
Wholesale Price Index (WPI)	14.23% (Nov-21) ↑	12.54% (Oct-21)	11.64% (Aug-21)	2.29% (Nov-20)
Industrial Production (IIP)	3.16% (Oct-21) ↓	3.30% (Sep-21)	11.54% (Jul-21)	4.52% (Oct-20)
GDP	8.4% (Sep-21) ↓	NA	20.1% (Jun-21)	-7.4% (Sep-20)
Trade Deficit ($ bn)	21.99 (Dec-21) ↓	23.27 (Nov-21)	22.94 (Sep-21)	15.72 (Dec-20)
Commodity Market				
Brent Crude ($/barrel)	77.78 (31-Dec-21) ↓	70.57 (30-Nov-21)	78.52 (30-Sep-21)	51.80 (31-Dec-20)
Gold ($/oz)	1,828.60 (31-Dec-21) ↑	1,776.50 (30-Nov-21)	1,758.50 (30-Sep-21)	1,914.0 (31-Dec-20)
Silver ($/oz)	23.38 (31-Dec-21) ↑	22.77 (30-Nov-21)	22.05 (30-Sep-21)	26.59 (31-Dec-20)
Currency Market				
USD/INR	74.47 (31-Dec-21) ↑	75.09 (30-Nov-21)	74.16 (30-Sep-21)	73.04 (31-Dec-20)

Source: Currency & Commodity – Investing.com, Economic Indicators – DBIE, RBI & News Articles

↓↑ signifies positive movement over Q-o-Q ↓↑ signifies negative movement over Q-o-Q

INR and Brent Crude Performance





INR Performance: The rupee gyrated and closed relatively flat during the month of December 2021 to close the month at 74.47 in from 75.09 in November 2021. Initially, the rupee weakened against the U.S. dollar on **increase in global crude oil prices** and as major central banks in their monetary policy reviews hinted at **tighter monetary policies** ahead. However losses were recouped as worries over the **economic impact of the Omicron mutation** of the coronavirus eased to some extent.

Brent Crude: Brent crude oil prices **jumped up by 10.2% December** from a $70.57 per barrel to $77.78 per barrel. Brent crude oil prices rose with market sentiment buoyed by easing concerns over the **Omicron coronavirus variant's impact on global economic growth** and fuel demand. Later it fell as surging cases of the **Omicron coronavirus variant raised fears new curbs may hit fuel demand**. However, losses were capped as fears over the impact of the highly infectious omicron variant on the global economy eased to some extent, with early data suggesting it causes a **milder level of illness** and after data showed **U.S. fuel demand holding up** well despite soaring omicron coronavirus infections.

Source: Investing.com

Equity Market - Review

Equity Market Roundup - Key Takeaways

Performance: Indian equity markets remained volatile through the month, however, managed to end the month with gains with **benchmark indices Nifty 50 and S&P BSE Sensex rising 2.08% and 2.18% respectively.** Rising concerns of **rapid spread of Omicron virus** kept the market volatile.

Domestic factors that played out for the Indian markets:

- Investors around the world were **worried for spread of new variant of coronavirus Omicron and efficacy of the current vaccine on the new variant**.
- In the much-awaited **monetary policy committee (MPC) maintained status quo** on reverse repo rate to support the ongoing domestic recovery amid concerns of Omicron variant of COVID-19. Investors welcomed move by MPC on maintaining the interest rate flat.
- Market sentiments were lifted after a **study reported that hospitalizations risk from omicron is less**, compared with the delta variant of coronavirus.
- **Selling by FIIs** put further pressure on benchmark indices.

Global factors that shaped the graph of the Indian markets:

- While, the **Bank of England** became the world's first major central bank to raise interest rates since the pandemic hammered the global economy; the **U.S. Federal Reserve** warned of higher inflation and signalled that raging inflation was its biggest risk.
- Investors found respite as **U.S. vaccine maker Moderna** confirmed that after the 3rd dose of its vaccine, antibody levels against the omicron will increase.

Outlook: In the near term, market may remain volatile amid Omicron variant of coronavirus concerns, until the impact of the highly-mutated variant and efficacy of existing vaccines is determined. Performance of market may also get influenced upcoming union budget. In long term, further direction of the market can be result of factors such as supply of vaccines and pace of vaccination across nation, policy measures, and improvement in supply chain issue across the globe. **Investors need to be watchful of triggers such as persistently high inflation and 'taper tantrum' risks arising from the U.S. Federal Reserve's change in policy stance. Further direction will be based on current vaccine efficacy on new variant, FPI flows and Monetary and Fiscal policy. We believe, market may remain volatile for the next few months, investors need to be cautious and invest in staggered manner and follow the prescribed asset allocation.**

Equity Dashboard – December 2021

Index	Closing Value	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)	Current Value - Trailing		
					P/E	P/B	Dividend Yield
S&P BSE Sensex	58,254	2.08	21.99	21.99	27.87	3.63	0.92
Nifty 50	17,354	2.18	24.12	24.12	24.11	4.37	1.19
Nifty 100	17,619	2.02	25.04	25.04	24.08	4.38	1.21
Nifty 200	9,218	2.11	27.47	27.47	24.63	4.26	1.18
Nifty 500	14,996	2.37	30.19	30.19	25.44	4.29	1.13
Nifty Midcap 100	30,443	2.67	46.06	46.06	28.89	3.62	0.98
Nifty Smallcap 100	11,289	5.89	59.28	59.28	32.11	4.14	0.80

Data as on 31 December '21; Source: NSE and BSE

Markets oscillated between red and green before ending the month in the positive territory with Sensex touching a low of 55,133, however **closing the month marginally above the 58,000 mark**. The movement of the market were governed by the following factors:

- Domestic Factors – Initially during the month, Indian equity markets were dragged by worries over the newly detected **Omicron variant** of coronavirus which had potential to resist vaccines.
- However, the **monetary policy committee** did not disappoint the investors by **keeping the key rates unchanged** and held the interest rate all time low to support the ongoing domestic recovery.
- Global cues – Initially, **inflation concerns** and **hawkish tone by the world's major central banks** knocked investor confidence globally.
- The **Bank of England** became the world's first major central bank to **raise interest rates** since the pandemic hammered the global economy.

Market witnessed **unceasing selling through FII**, however **almost equally high purchases by DII** supported the markets.

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)
IT	10.07	56.07	56.07
Capital Goods	6.91	53.38	53.38
Metal	5.64	65.92	65.92
Consumer Durables	3.87	47.29	47.29
Auto	3.45	19.25	19.25
Health Care	2.76	20.87	20.87
Realty	1.08	55.00	55.00
Power	0.73	68.84	68.84
FMCG	0.70	9.32	9.32
Oil & Gas	0.03	24.26	24.26
PSU	-0.13	40.82	40.82
Telecom	-0.83	42.98	42.98
Bankex	-0.91	12.59	12.59
Energy	-1.31	24.05	24.05

*S&P BSE Sectoral Indices . Source: BSE

Equity Flow (Rs. Cr.)	1-Mth	YTD	1 Yr.
FII	-35,494	-91,626	-91,626
DII	31,231	94,846	94,846

Source: Moneycontrol

Category Average Performances – December 2021

- **During the month** under consideration all the categories were in the green with the small cap being the best performing category. Among the sectoral funds, with the exception of Financial Services all the categories were in the green with Technology being the clear outperformer.

- **For the full year** all the categories were in the green registering a double digit return. Small Cap was the best performing category. Among the sector based and thematic funds Technology was the best performing sector followed by Infrastructure, Consumption, Healthcare, FMCG & Financial Services.

- **On a 3 year CAGR** basis most of the categories delivered early double digit returns with the Mid Cap & Small Cap outperforming the rest. Among the sector and theme based funds Technology and Healthcare were the top performers.

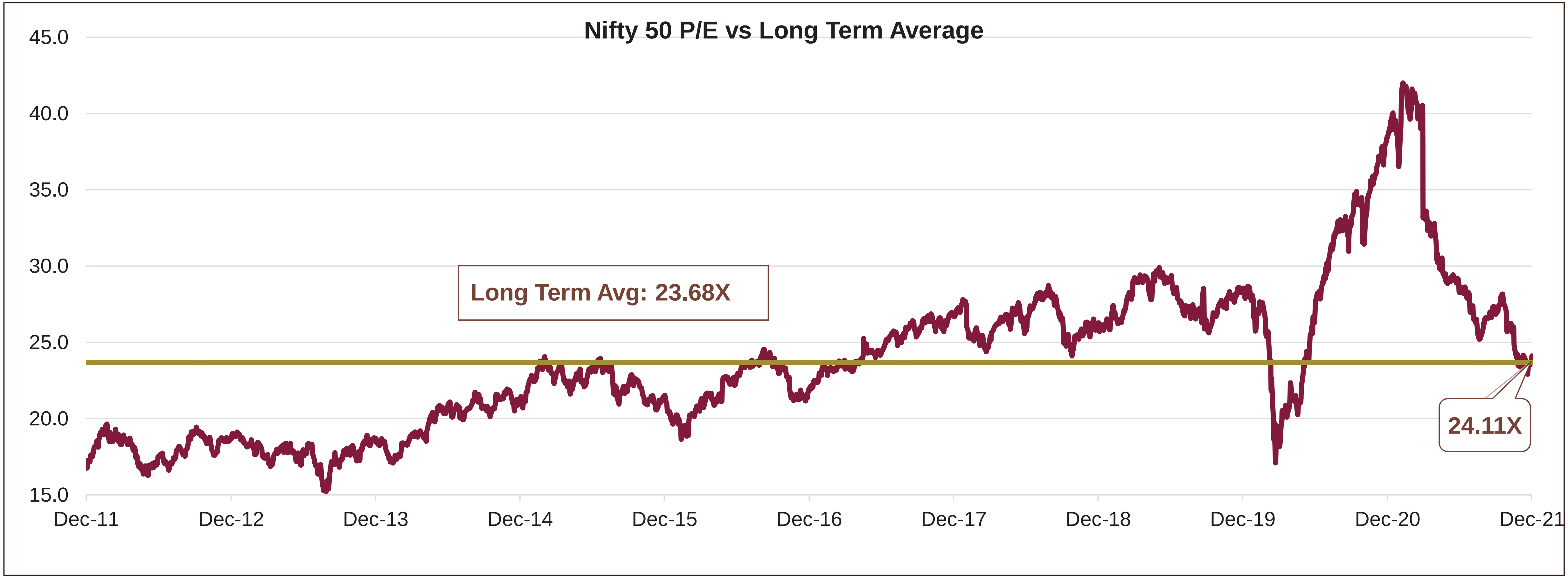
- **With respect to the 5 year CAGR returns** most the categories have early double digit return with the exception of Technology which clocked in gains of ~30%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	2.15	-0.52	10.64	25.44	19.63	16.89	15.43
Large & Mid Cap	2.68	1.39	13.14	37.44	25.95	19.65	16.75
Multi Cap	1.73	0.88	13.57	42.50	27.48	21.91	18.35
Flexi Cap	2.77	1.01	12.39	31.86	23.45	18.79	16.77
Mid Cap	2.76	1.87	13.36	44.60	33.87	22.56	18.37
Small Cap	4.05	5.34	17.87	62.49	46.58	27.70	20.21
Focused	1.95	0.97	12.35	31.38	23.03	18.52	16.55
ELSS	2.33	0.44	11.37	31.26	23.54	18.20	16.47
Contra	2.78	1.23	12.17	36.55	29.22	20.44	18.34
Dividend Yield	3.58	1.77	13.05	38.58	28.35	19.46	16.30
Value	2.77	0.44	10.65	36.03	25.25	16.83	14.92
Sectoral / Thematic							
Consumption	0.76	0.42	12.09	32.44	26.33	19.17	18.59
Infrastructure	2.40	2.13	14.68	52.32	28.75	19.01	15.10
Financial Services	-1.17	-5.54	2.05	15.02	6.67	10.63	13.44
FMCG	0.51	-2.60	10.02	19.50	14.52	11.06	14.73
Healthcare	3.57	0.33	4.15	20.49	41.61	28.79	15.49
Technology	6.18	9.26	28.96	65.22	61.27	41.33	31.59

Source: Morningstar Direct

Valuations on the Trailing P/E Metrix

Nifty 12-month trailing P/E of 24.11x is in line with its historical long term average of 23.68x



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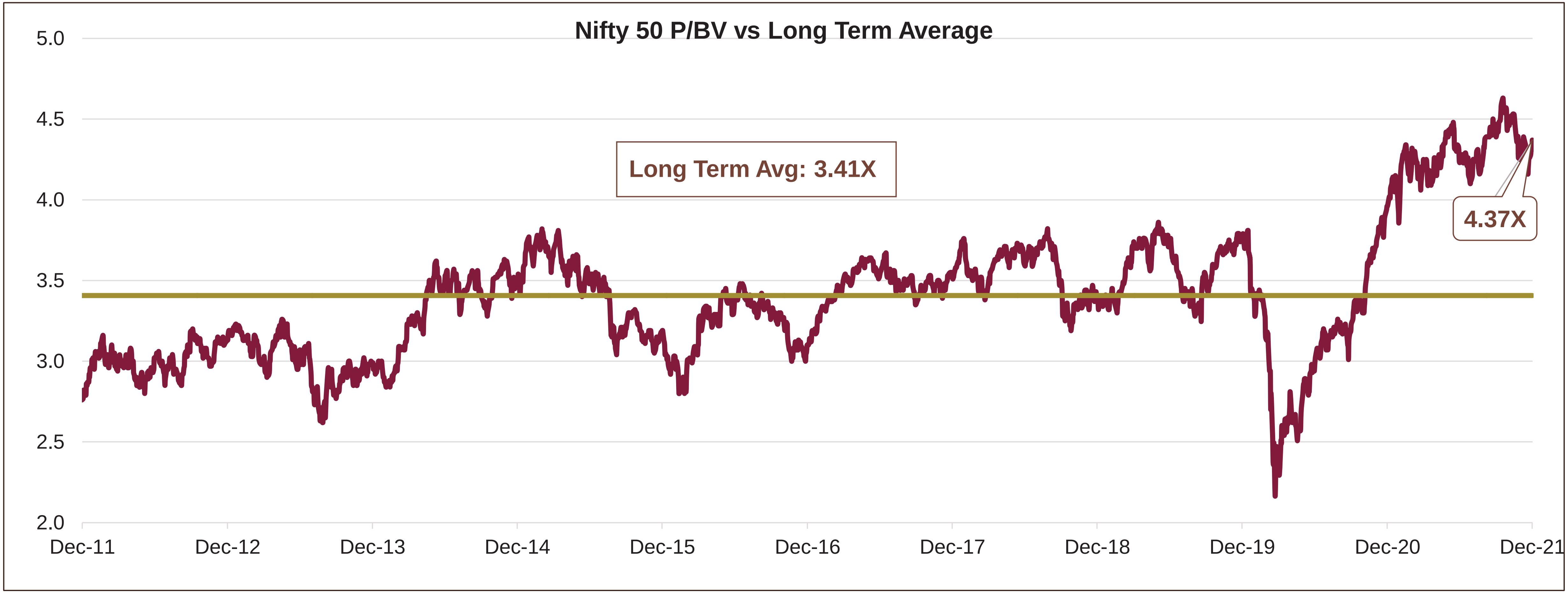
For Client Circulation.

Source: NSE India

Valuations on the Trailing P/BV Metrix

At 4.37x, the Nifty Trailing P/B is above the historical long term average of 3.41x.



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Source: NSE India

Valuations on a Trailing Dividend Yield perspective

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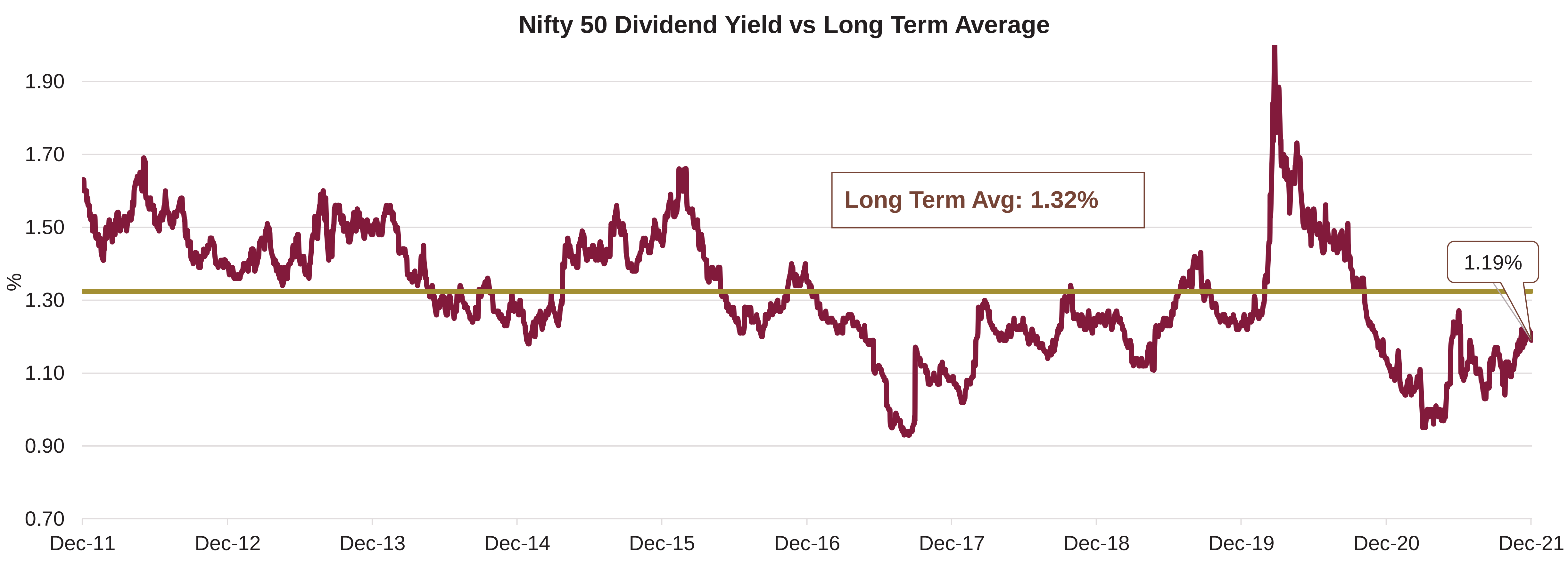
At 1.19%, the Nifty Trailing Dividend Yield is below the historical long term average of 1.32%.



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Source: NSE India

Valuations on a MCap / GDP perspective

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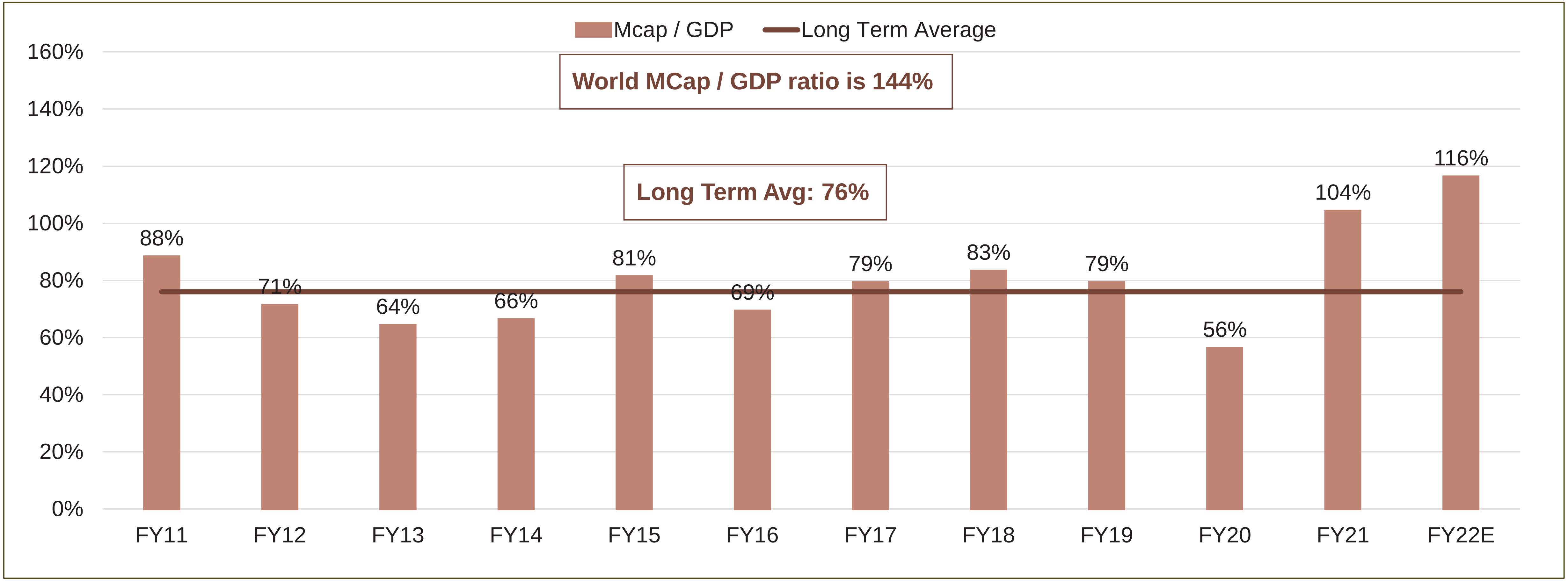
On Market Capitalisation to GDP parameter the market is trading above the historical long term average but below the global average



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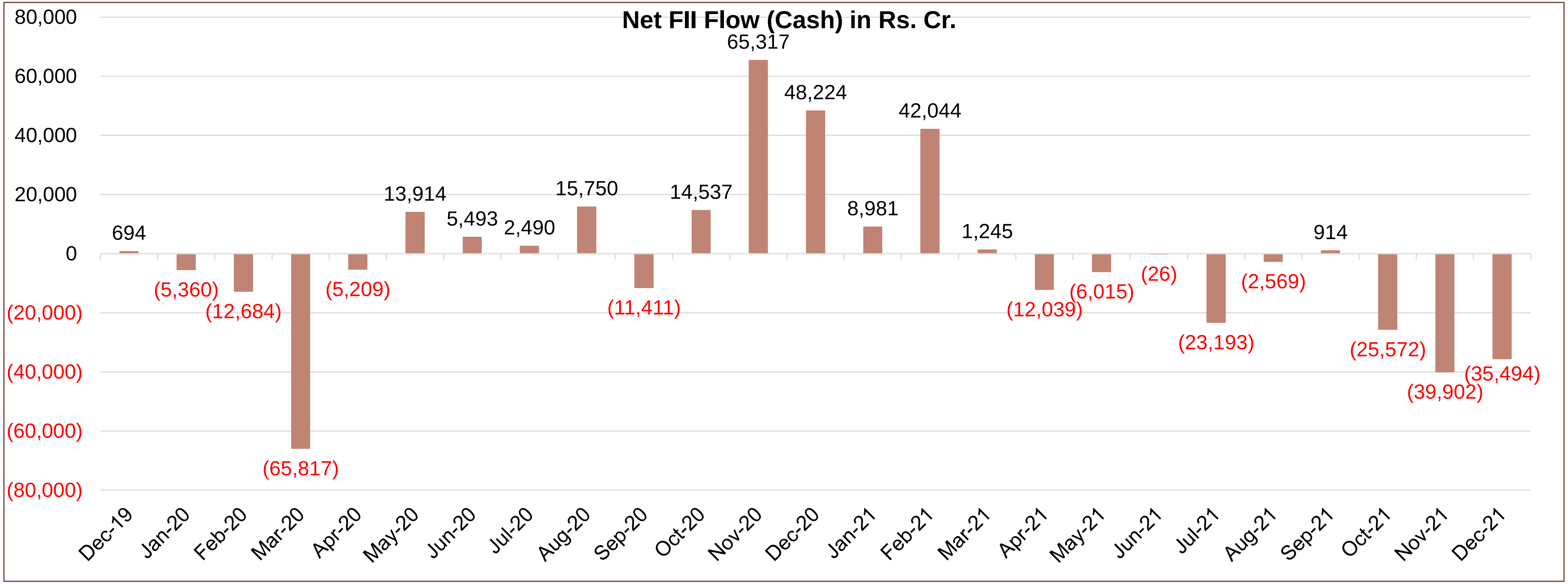
Source: Kotak AMC, Monthly Market Outlook, Jan 22

FII Flow into Equity

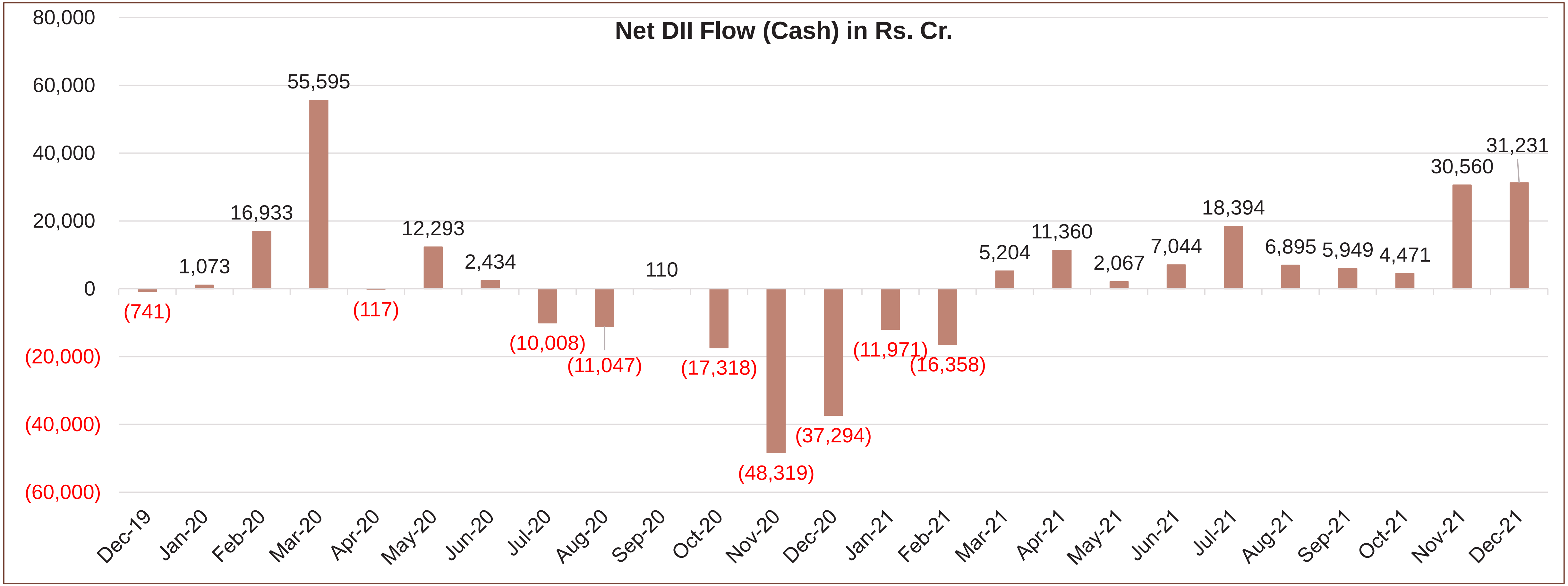
FII registered an outflow to the tune of Rs. 35,494 cr in December ’21 for the third consecutive month



Source: Moneycontrol

DII Flow into Equity

DII were net buyers in the cash market to the tune of Rs. 31,231 cr in December ’21 for the tenth consecutive month



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For Client Circulation.

Source: Moneycontrol

Debt Market - Review

Debt Market Roundup - Key Takeaways

- The India 10-Year Government Bond yields **hardened during for the month to close at 6.45%** as against 6.33% at the end of November.
- Initially during the month bond yields rose as initial probability of a reverse repo rate hike by the Monetary Policy Committee (MPC) on Dec 8 was neutralised after the **MPC kept the key rates unchanged and the policy stance accommodative to support growth**. Later during the month it further rose as **central banks across the globe hinted at tighter monetary policies ahead**, which fueled concerns of normalisation of monetary policy on the domestic front.
- Driven by a pandemic-driven plunge and then a low base effect rise, **economic growth soared to a record high of 8.4% in the July-September quarter**.
- Market sentiments were also boosted as the **GST collection stayed above the one-trillion rupees mark** in November 2021 for the 5th consecutive month.
- While **November retail inflation rose marginally to** 4.91% despite cut in levies on fuel; **October IIP growth** slipped to 3.20% on waning low base effect.
- **Brent crude oil prices rose** after data showed U.S. fuel demand holding up well despite soaring omicron coronavirus infections.
- The **U.S. Treasury yields** had a roller coaster ride before ending the month higher. Yields fell on concerns over the **Omicron variant being detected** in the country and as the **U.S. President's hopes of passing a domestic investment bill fell** after a U.S. Senator said he would not support it. Yields rose as **drug makers announced positive results for their COVID-19 vaccine** in a laboratory test against the new Omicron variant and after the **U.S. Fed in its monetary policy review sounded hawkish.**

Outlook:

- In the near-term trend in debt market would be guided by **market support measures that the RBI announces from time to time**. However, the broader directional trend would mainly depend on how the **growth-Inflation dynamic shapes up**.
- Going ahead there may be **lack of appetite for taking duration risk** when **interest rates have likely bottomed out, liquidity conditions are normalizing, and fiscal deficit numbers stand elevated.**
- There being **limited scope of rate cuts** which was the major driver for returns in the past couple of years, it's important to **rationalize return expectations going forward**.

Debt Dashboard – December 2021

	Latest (31 Dec '21)	One Month Ago (30 Nov '21)	One Quarter Ago (30 Sep '21)	Half Year Ago (30 Jun '21)	One Year Ago (31 Dec '20)	M-o-M Change (bps)
Interest Rates						
Repo rate	4.00%	4.00%	4.00%	4.00%	4.00%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	3.63%	3.53%	3.53%	3.43%	3.05%	10
6 month	4.13%	3.98%	3.73%	3.68%	3.30%	15
1 Year	4.43%	4.33%	3.98%	4.03%	3.65%	10
T-Bill/G-sec						
91 Days	3.63%	3.49%	3.43%	3.38%	3.07%	14
364 Days	4.22%	4.11%	3.77%	3.84%	3.44%	11
India 10 Year G-Sec Yield	6.45%	6.33%	6.22%	6.05%	5.89%	13
AAA Corp. Bonds (PSU)						
1 Year	4.68%	4.74%	4.15%	4.25%	3.78%	-6
3 Year	5.65%	5.55%	5.24%	5.30%	4.60%	10
5 Year	6.18%	6.03%	5.92%	5.91%	5.36%	15
AAA Corp. Bonds (NBFC)						
1 Year	4.91%	4.87%	4.31%	4.40%	4.16%	4
3 Year	5.97%	5.80%	5.41%	5.57%	4.89%	17
5 Year	6.32%	6.13%	6.08%	6.10%	5.72%	19
International Markets						
10 Year US Treasury Yield	1.51%	1.46%	1.49%	1.47%	0.92%	6

- The **money market instruments witnessed a upward movement in the yields** as prices of both the certificate of deposits and T-Bills fell.
- The **U.S. Treasury Yields hardened** as Omicron coronavirus variant appeared to be less lethal, despite its rapid spread globally. The **India 10 Year GSec** too followed the suit.
- **Both the AAA Corp. PSU & NBFC witnessed a significant rise in the yields** at almost all points on the curve in line with the Government Securities.
- In Dec. the MPC on expected lines **kept the policy rates and reserve ratios unchanged** for the 9th consecutive time.

Source: IDFC AMC, G Sec – Investing.com

Debt Category Average Performances – December 2021

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- **During the month** under consideration only Money Market and Accrual funds were in the green while Duration category was in the red as yields at almost all points on the curve rose
- With respect to the **3 months and 6 months trailing returns too** all the categories gave positive returns.
- **For the full year** all the categories were in the green with our recommended categories such as Low duration, Floating rate, Short Duration, Banking & PSU and Corporate Bond Fund were one of the best performing.
- **On a 2 year CAGR** basis all of the categories delivered a early to mid single digit growth. In addition to all the duration funds, the Short Duration, Banking & PSU, Corporate Bond and Floating Rate were the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns** most the categories reported Mid to late single returns with the exception of credit risk which underperformed.

Source: Morningstar Direct

Money Market	Absolute Returns (%)				CAGR (%)		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Overnight	0.28	0.81	1.57	3.10	3.21	3.95	4.64
Liquid	0.27	0.78	1.52	2.99	3.36	4.33	5.16
Ultra Short Duration	0.26	0.77	1.84	3.53	4.35	5.34	5.59
Low Duration	0.23	0.71	1.93	3.68	5.20	4.29	5.26
Floating Rate	0.09	0.53	2.01	3.68	6.33	6.87	6.84
Money Market	0.28	0.81	1.71	3.41	4.60	5.79	6.10
Accrual	**Absolute Returns (%)**				**CAGR (%)**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Short Duration	0.12	0.59	2.43	3.76	6.32	6.07	5.98
Medium Duration	0.07	0.61	3.50	5.16	5.76	5.14	5.37
Banking & PSU Debt Fund	0.13	0.62	2.13	3.44	6.71	7.70	7.12
Corporate Bond Fund	0.12	0.61	2.15	3.55	7.00	7.66	6.96
Credit Risk	0.20	0.90	5.31	8.72	3.74	2.47	3.55
Duration	**Absolute Returns (%)**				**CAGR (%)**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Medium To Long Duration	-0.19	0.30	2.56	3.00	6.51	6.70	5.59
Long Duration Fund	-0.53	0.24	2.53	2.03	6.26	8.28	6.81
Dynamic	-0.10	0.43	2.44	3.37	6.51	6.87	5.98
Gilt	-0.28	0.19	2.00	2.22	6.69	8.10	6.69

Money parked in Reverse Repo window

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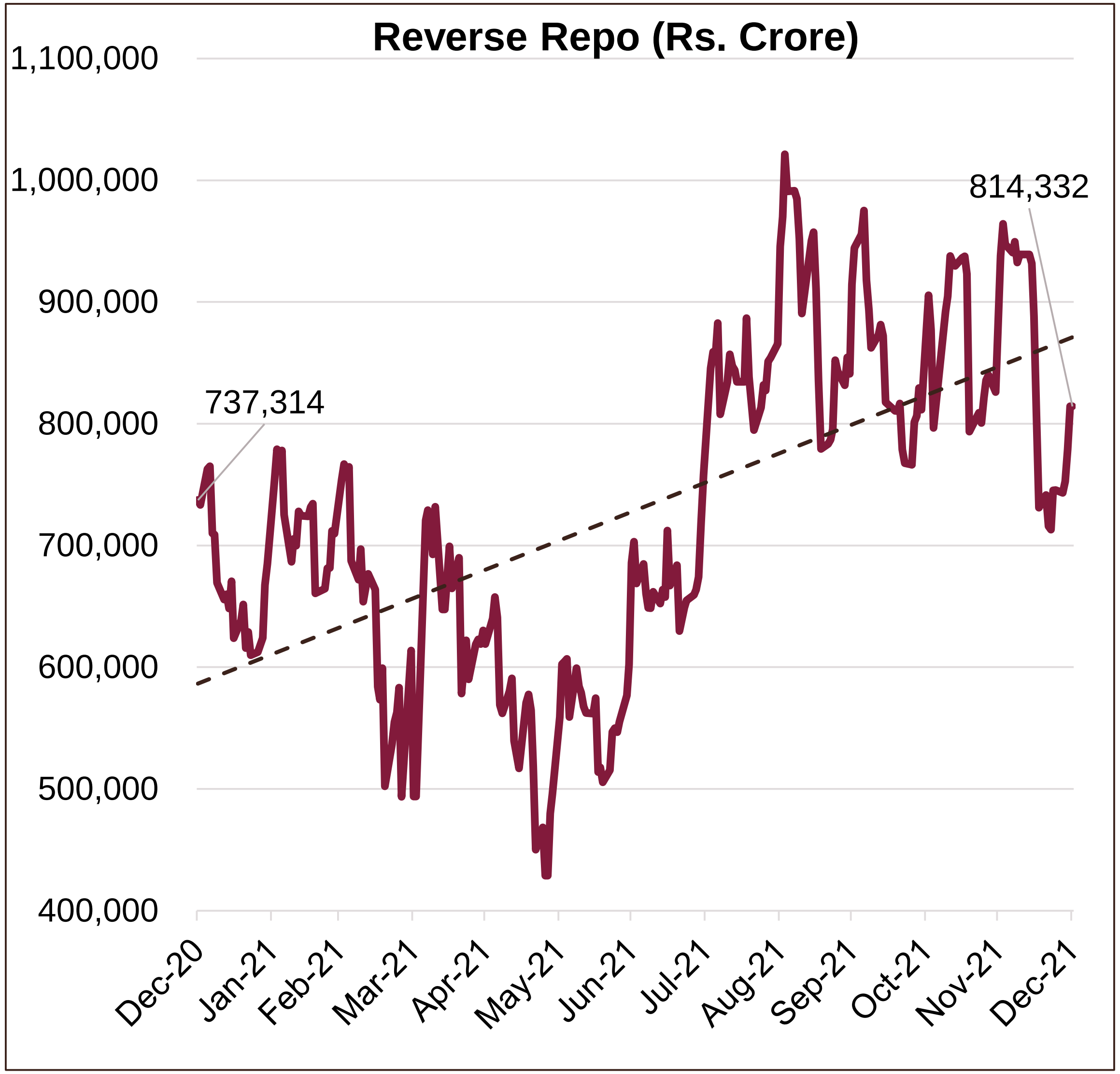
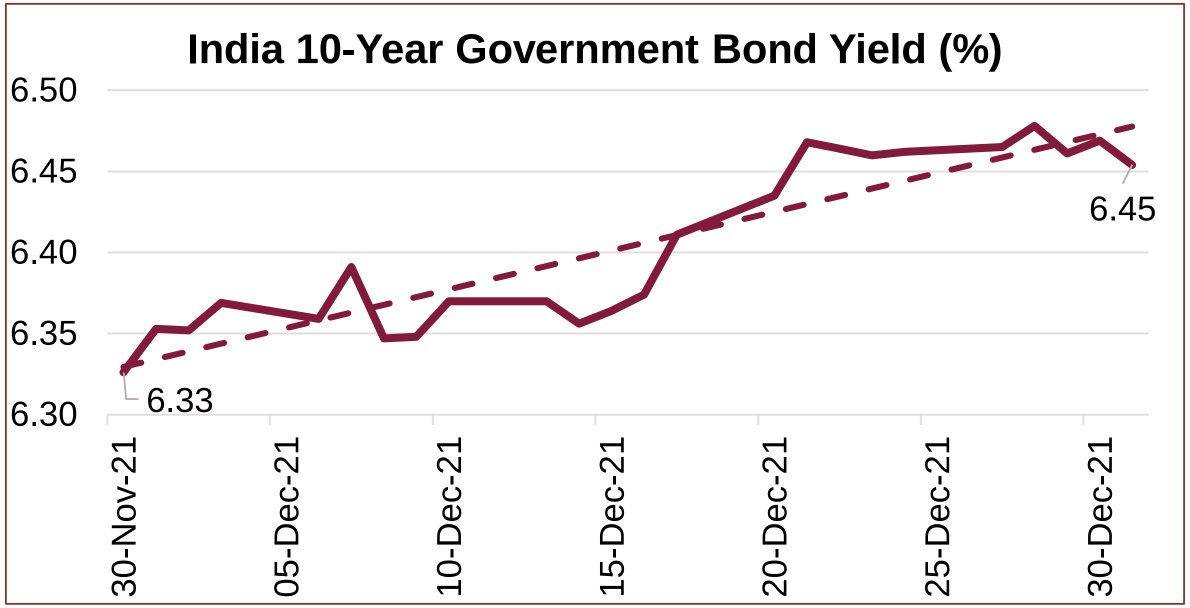
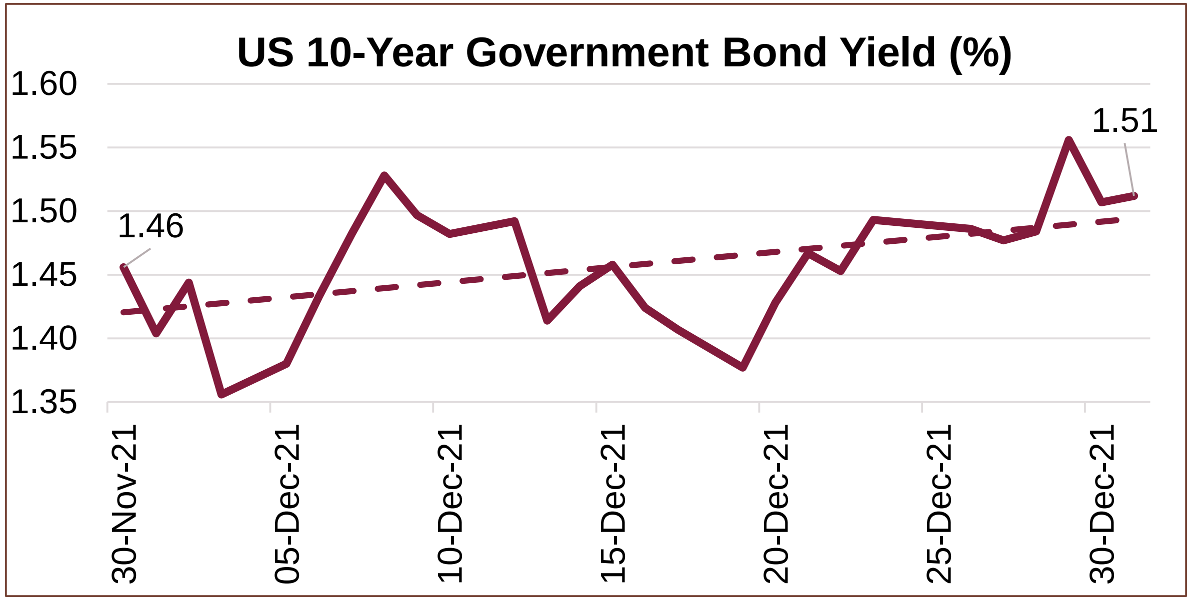
On persistent efforts by RBI to keep **liquidity ultra easy** and **accommodative policy for a long tenure**, a couple of months since November 2020 witnessed extreme **short-term banks, corporate and government borrowing rates remaining below its policy benchmark rates**. This gave RBI legroom for liquidity management and normalization by conducting **a variable rate reverse repo (VRRR) auction and CRR the rollback of CRR in a phased manner.** Further, in August 2021 policy meet the quantum of VRRR absorption from the market was increased over the next 2 months. RBIs persistent efforts to **ensure that the cost of short-term borrowings does not fall below that floor rate**, which is currently at 3.35% by conducting VRRR had not been yielding results off and on. **In the Oct policy meet the RBI decided to discontinue GSAP and step up VRRR further. Later in Dec, RBI decided to re-establish 14-day VRRR auction as a key liquidity management operation from the current 28-day VRRR.** Over time, the idea is to push up the rate at which liquidity is absorbed via these VRRR auctions, which would make it easier for the RBI to eventually raise that benchmark. During the month under review the **banks on an average are parking Rs. 8.36 lakh crore to the reverse repo window** as against Rs. 8.73 lakh crore in November.



Yields Movement Across - India and U.S.





- **<u>10-year India Government Bond Yield:</u>** The India 10-Year Government Bond yields hardened during for the month to close at 6.45% as against 6.33% at the end of November. Initially during the month bond yields rose as initial probability of a reverse repo rate hike by the Monetary Policy Committee (MPC) on Dec 8 was neutralised after the **MPC kept the key rates unchanged and the policy stance accommodative to support growth**. Later during the month it further rose as **central banks across the globe hinted at tighter monetary policies** ahead which fueled concerns of normalisation of monetary policy on the domestic front.

- **<u>U.S. Treasury Yield:</u>** U.S. Treasury yields had a roller coaster ride during the month; it rose by 6 bps from 1.46% in Nov '21 to close at 1.51% in Dec '21. U.S. Treasury yields fell on concerns over the **Omicron covid-19 variant** and the same mutant was found in the United States and as the U.S. President's hopes of **passing a $1.75 trillion domestic investment bill fell** after a U.S. Senator said he would not support the package. Yields rose as **drug makers announced positive results for their COVID-19 vaccine** in a laboratory test against the new Omicron variant and the U.S. Fed in its monetary policy review announced that it will **stop its pandemic era bond purchases in Mar 2022** and **signaled three rate hikes by the end of the current calendar year.**

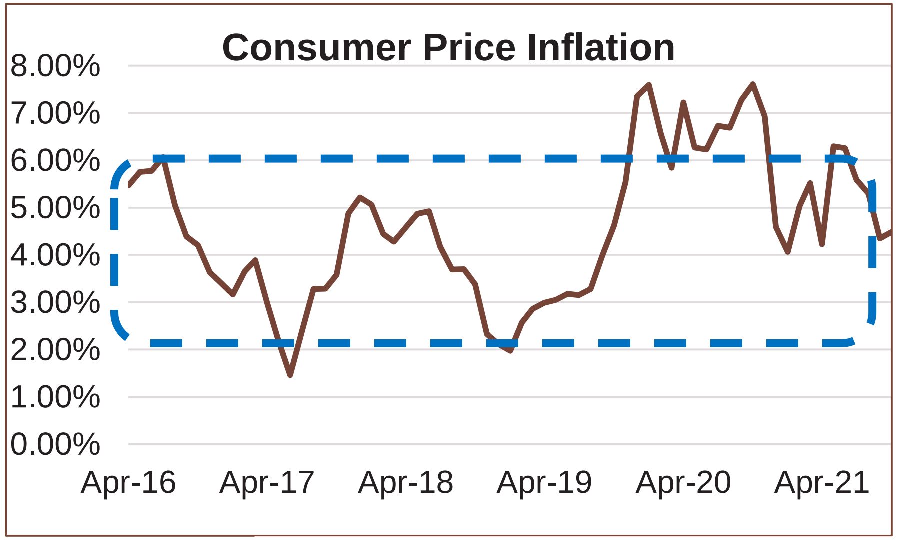
Source: Investing.com

Event Update

Key Highlights - RBI Policy Measures

RBI's Stance	→	Accommodative

Policy Rates / Reserve Ratio	Prior Policy	8 Dec 21	Status
Repo Rate	4.00%	4.00%	↔
Reverse Repo Rate	3.35%	3.35%	↔
MSF	4.25%	4.25%	↔
Bank rate	4.25%	4.25%	↔
CRR	4.00%	4.00%	↔
SLR	18.00%	18.00%	↔



Source: RBI DBIE

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The RBI for the **9th consecutive bi – monthly Monetary Policy Committee (MPC) Meeting kept the key policy rates unchanged**, in expected lines. RBI had last revised its policy rate on 22 May, 2020, in an off-policy cycle to perk up demand by cutting the interest rate to a historic low. MPC voted unanimously for keeping the interest rate unchanged. However with respect to the stance though it decided to continue with its **"accommodative" stance "as long as necessary"** to support growth and keep inflation within the target, the decision was not unanimous.

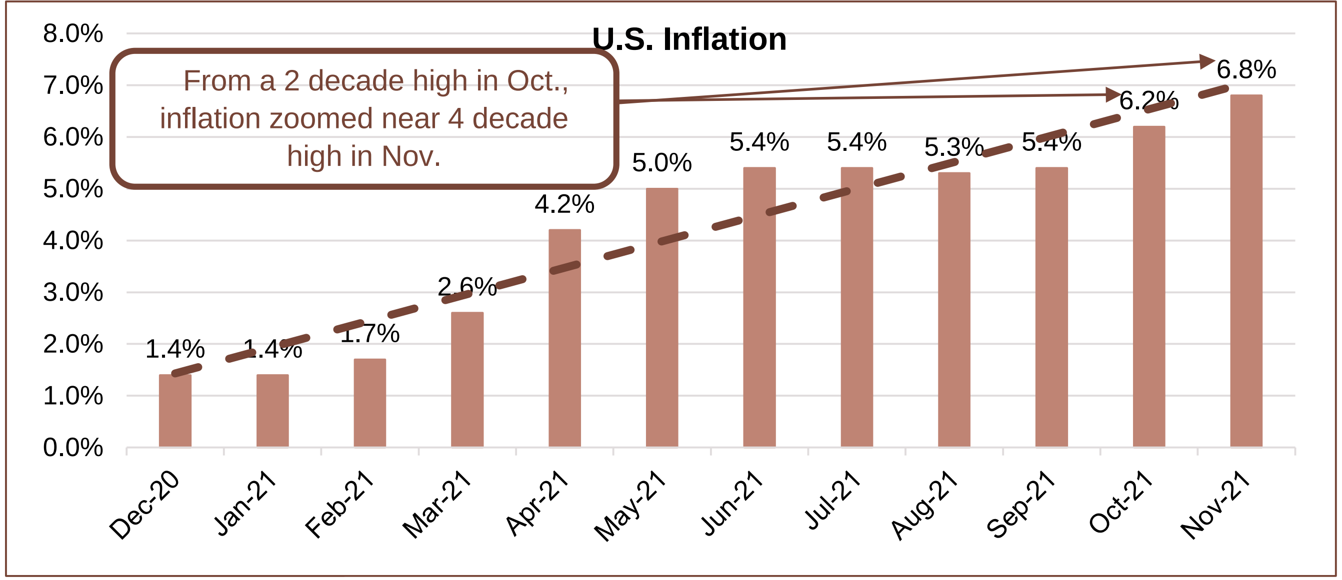
- **Growth Outlook:** The RBI projected the Real GDP growth at 9.5% in 2021-22, in line with what was projected on June, August and October 2021.
- **Inflation Outlook:** CPI inflation is projected at 5.3% during 2021-22, in line with the number projected earlier.
- **Key Measures Announced:** RBI to re-establish 14-day variable rate reverse repo (VRRR) auction as a key liquidity management operation from the current 28-day VRRR. Increase 14-day VRRR amount to Rs. 7.5 lakh crore by Dec-end in gradual manner from Rs. 6 lakh crore currently. From Jan 2022, liquidity absorption will be done through auction route - Operation Twists and regular open market operations.

This policy the focus was clearly on supporting growth even as fears over inflation flare up on the back of high commodity prices and global changes in interest rate policy are dynamic. In line with the market expectation, we had in our post policy review note in October stated that there is a "possibility of a reverse repo rate hike in the near term", nonetheless with evolving **COVID-19 situation across the globe and RBI Policy this time being more dovish than expected though we do not rule out a possibility of a near term rate hike, we believe it would not be immediate near future.**

FOMC Meet - Fed shifts to inflation battle, tapering down pandemic support

Key Highlights

- Indicating at one of the **most hawkish policy supports in years**, the U.S. central bank said it will **double the pace at which it's scaling back purchases of treasuries** and mortgage-backed securities.
- Policy makers see another **three increases as appropriate in 2022 and two more in 2023**, bringing the funds **rate to 2.1%** by the end of that year.
- **The word "transitory" for inflation has now been "retired"**, with Fed now expecting inflation at 5.3% in 2021 and 2.6% in 2022.



Source: tradingeconomics.com

- Indicating at one of the **most hawkish policy supports in years**, the U.S. central bank said it will **double the pace at which it's scaling back purchases of treasuries and mortgage-backed securities** to $30 billion a month (USD 20 bn in treasuries and USD 10 bn in agency mortgage backed securities), putting it on track to conclude the program in early 2022, rather than mid-year as initially planned.
- The new rate projections marks a major shift from the last time forecasts were updated in September, when officials were evenly split on the need for any rate increases at all in 2022. The new projections also showed policy makers see another **three increases as appropriate in 2022 and two more in 2023, bringing the funds rate to 2.1% by the end of that year**.
- The **word "transitory" for inflation has now been "retired"**, with Fed now expecting inflation at 5.3% in 2021 and 2.6% in 2022, 90 bps and 40 bps respectively higher than September projections.
- **Unemployment dropped to 4.2% in November** from 4.6% in October, a quicker pace of recovery than forecasters had anticipated.
- **Consumer prices rose 6.8%** in the year through November, marking the **fastest pace of increase since 1982.**

Thank You!

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