ECONOMY

What is Expected of the Fed?

THINK STRATEGICALLY:

Checking Out the Most Recent IPOs

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An initial public offering (IPO) is when a company first sells its shares to the public. Due to untested trading and the absence of information, equities are often branded IPOs for months following their debuts.

The IPO process has many benefits, including raising fresh capital for expansions and acquisitions and ultimately tapping into the vast U.S. capital markets. Also, the IPO provides liquidity for investors, founders and employees, allowing them to monetize their hard work. Most IPO events are covered broadly by the media and, in my view, are the most prominent marketing events to build brand awareness.

In 2020, 221 companies priced IPOs, while so far in 2021, 391 companies have priced IPOs for a total of $141.5 billion, an 85.3 percent increase year over year.

With so much focus and hype behind most IPOs, we decided to review some six recent ones and how they have fared in 2021, and their stock price as of Dec. 10.

– Snowflake (SNOW): Founded in 2012, the company is a data lake, warehousing and sharing company that became public in September 2020, at $120 a share, raising $3.4 billion. Snowflake's data sharing capability allows enterprises to easily buy and ingest data almost instantaneously, compared with a traditionally months-long process. The company's stock closed at $371.24, for a year-to-date (YTD) return of 31.93 percent. However, the stock has risen by $251.24, or 209 percent, since its IPO.

– Airbnb Inc. (ABNB): Founded in 2008, is the world's largest online alternative travel accommodation agency. Airbnb's platform offers more than 5.6 million accommodation listings, including booking services for boutique hotels and experiences. The company went public in December 2020 at $146 per share, raising $35.5 billion. Its stock closed at $180.42, for a YTD return of 22.9 percent.

– DoorDash(Dash): Founded in 2013 and based in San Francisco, the platform is used by consumers to order food for pickup or delivery, mainly in the United States. In 2020, the company generated $24.7 billion in gross order volume. The company went public in December 2020 at $102 per share; the stock closed at $158, for a YTD return of 10.68 percent. However, the stock price has risen 54.9 percent since the IPO.

– Unity Software Inc. (U): A platform used to create, run and monetize interactive, real-time 2D and 3D content for mobile phones, tablets, PCs, consoles and augmented and virtual reality devices. The company went public in September 2020 with a stock price of $52 per share; its stock closed at $139.47, for a YTD return of -9.12 percent; however, since it went public, the stock has risen $87.47, or 168.21 percent.

– Rivian Automotive (RIVN): The company designs, develops and manufactures category-defining electric vehicles and accessories. The company went public in November at $78 per share, raising $12 billion; the stock closed at $114.60, for a YTD return of 13.83 percent. It rose $36.66 since the IPO, a 47 percent increase.

– DiDi Global Inc. (DIDI): It is the go-to brand in China for shared mobility, providing consumers with a range of affordable and convenient mobility services, including ride-hailing, taxi-hailing, chauffeur, hitch and other forms of shared mobility. It went public June 30, 2021, with an IPO price of $14, which raised $4.4 billion and rose less than 1 percent and went downhill from there. The stock rose to $18 initially, and once trading began after the Fourth of July weekend, the stock fell hard. It closed at $6.49, for a YTD return of -54.1 percent.

What went wrong?

On June 25, before trading opened in Wall Street, the Cyberspace Administration of China (CAC) announced an investigation into DiDi over allegations that the company violated data privacy laws, as well as a series of national security laws. It ordered the company to stop registering new users. The CAC instructed all Chinese app stores to remove DiDi's app.

However, the ramifications of the DiDi situation and Ant Group's canceled IPO have ended a decades-old, trillion-dollar love affair between China and Wall Street. DiDi, China's Uber, said it would delist its New York Stock Exchange shares. This signals that China no longer needs Wall Street.

Week in Markets: CPI Rises Most in 39 years, Consumer Sentiment Improves

The U.S. stock market ended last week better after two consecutive weeks of losses. Investors attempted to climb two mountains of concern: the path of the Federal Reserve interest rate increases and the direction of the coronavirus' omicron variant.

As the omicron scare took hold last week, Federal Reserve Chairman Jerome Powell surprised markets with a significant change in tone about critical areas. On the one hand, after stating that inflation was transitory for most of the year, he acknowledged that inflationary pressures had been more permanent than the Fed had expected.

The second change from Powell had to do with the tapering of the Fed's asset purchase program. Powell noted that the Fed would increase its balance-sheet tapering significantly, providing needed flexibility to raise interest rates, specifically if inflation continues to grow. This fact is a dramatic change of tone by the Fed.

Despite the U.S. Consumer Price Index (CPI) rising to 6.81 percent annually in November, Wall Street closed one of the best weeks since February. However, investors continue to factor in their decision-making the fact that U.S. inflation is at its highest in 39 years.

The market had priced in the high inflation reading, matching most economists' forecasts. Another good sign was that the U.S. Index of Consumer Sentiment rose 4.45 percent.

The Federal Reserve has a dual mandate, controlling inflation at a targeted 2 percent and seeking full employment in the labor markets. In contrast, we have seen significant advances in the labor markets; on the inflation front, we have only begun to see slight decreases; however, as we dig deeper, we note that the CPI reading for the month fell 17.02 percent, coming in at 0.78 percent, and less than the 0.94 percent compared with the previous month.

Final Word: What should investors expect from the Fed?

As the Federal Open Market Committee (FOMC) meeting quickly approaches, we see several vital determinations.

Doubling Down on Tapering: In light of the economic data and unusually high inflation, we feel the FOMC has no option but to double down on its tapering plan of $15 billion a month and quicken the rate to a figure closer to $30 billion a month. Doing so will allow the Fed to end the tapering by the first quarter and set itself and the market up for interest rate increases.

Revised Economic Projections: In December, the Fed usually produces a revised set of economic projections, including updated gross domestic product growth, inflation and unemployment forecasts.

2022 Monetary Policy: We expect the FOMC to discuss its views on 2022 monetary policy and omicron, inflation pressures and the interest rate cycle.

As we always tell investors, a well-diversified portfolio with the proper balance of stocks, bonds and other securities that meet your financial goals and criteria is the best protection from market swings.

Weekly Market Close Comparison	12/10/21	12/3/212	Return	YTD
Dow Jones Industrial Average	35,970.99	34,580.08	4.02%	17.53%
Standard & Poor's 500	4,712.09	4,538.43	3.83%	25.45%
Nasdaq Composite	15,630.60	15,085.47	3.61%	21.28%
Birling Puerto Rico Stock Index	2,942.94	2,899.79	1.49%	43.91%
U.S. Treasury 10-Year Note	1.48%	1.35%	9.63%	0.50%
U.S. Treasury 2-Year Note	0.67%	0.60%	11.67%	0.60%

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