Summary

Economic data for the week included a decline in durable goods orders and new home sales, and consumer sentiment fell to multi-year lows. However, jobless claims again reached multi-decade levels of strength.

U.S. equity markets gained ground last week, despite a more hawkish Fed; foreign markets were mixed, based on the relative impacts of high energy prices and the war in Ukraine. Bonds fell back sharply, as hawkish central bank language caused interest rates to drift higher in a variety of maturities. Commodities continued to gain across the board along with supply shortages, notably in energy and metals, due to the war in Ukraine and associated Russian sanctions.

Economic Notes

(-) **Durable goods** orders for February fell back by -2.2%, which was a reversal from the prior month, and a bit slower than the -0.6% decline expected by consensus. Removing transportation from the measure trimmed the decline to -0.6%, while core capital goods orders only fell by -0.3%. (The deeper headline decline was led by a drop in commercial aircraft orders, which tend to be lumpy by nature, so are less reliable month-to-month, with the prior several months' data quite robust.) Core capital goods shipments, on the other hand, rose by 0.5%, but about a half-percent short of expectations. Over the trailing year, durable goods are up over 10%, which continues to point to general economic expansion.

(-) **New home sales** in February fell by -2.0% to a seasonally-adjusted annualized rate of 772k units; this was in contrast to an expected gain of 1.1%, and included a downward revision for the prior month. While the Northeast and Midwest saw gains, these were offset by declines in the West and South. Sales of new homes remain down over -6% on a trailing 12-month basis. The median price of a new home was up nearly 11% from last year at $400,600, while the average price of $511,000 represented a 25% increase. The months' supply actually ticked up a few tenths to 6.3, with inventories actually rising a bit. While affordability remains a concern, higher interest rates has the historical tendency of cooling off residential real estate markets; on the positive side for buyers, single-family homes under construction has reached the highest level in over 15 years. However, building activity remains well behind long-term demographic need.

(-) **Pending home sales** for February fell by -4.1%, which was slightly better than the prior month, but disappointed compared to an expected gain of 1.0% and continued the declines to four straight months. While the Northeast saw gains of a few percentage points, the other regions fell in the mid-single digits. As with new home sales, very low available house inventories, less affordable pricing, and expected rising mortgage rates have provided a mixed bag for potential purchases over the next several months.

(-/0) The final March **Univ. of Michigan index of consumer sentiment** ticked down by -0.3 of a point to 59.4, below expectations for no change, and the lowest level in a decade. Assessments of current conditions fell by -0.6 of a point while expectations for the future barely budged. Median inflation expectations were unchanged, both for the coming year at 5.4%, and over the next 5-10 years at 3.0%. The latter is elevated compared to recent years, but hasn't gone 'out of control', as expectations for inflation to eventually normalize remain a base case for many consumers. Interestingly, one of the anecdotal questions asked mentioned the current appeal of buying durable goods, which, based on recent inflation, has collapsed to the lowest sentiment level in 40 years.

(+) **Initial jobless claims** for the Mar. 19 ending week fell by -23k to 187k mil., well below the 210k expected. **Continuing claims** for the Mar. 12 week also fell, by -67k to 1.350 mil., below the 1.400 mil. expected by consensus. Declines in claims were seen nationwide, with key states being MI, CA, and KY, while MN saw a substantial increase. The initial claims number was the lowest/strongest since 1969, and continuing claims lowest since 1970. These are even more impressive considering the U.S. population growth since that time, further lowering the percentage of claims relative to workers.

Market Notes

Period ending 3/25/2022	1 Week (%)	YTD (%)
DJIA	0.31	-3.60
S&P 500	1.81	-4.35
NASDAQ	1.99	-9.28
Russell 2000	-0.38	-7.22
MSCI-EAFE	0.19	-7.09
MSCI-EM	0.22	-8.39
Bloomberg U.S. Aggregate	-1.82	-6.89

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2021	0.06	0.73	1.26	1.52	1.90
3/18/2022	0.42	1.97	2.14	2.14	2.42
3/25/2022	0.55	2.30	2.55	2.48	2.60

U.S. stocks gained last week, with the Fed's recently hawkish comments, combined with an uncertain outlook for Ukraine, resulted in mixed performance for stocks and bonds as markets digested the implications. By sector, energy stocks gained over 7% in keeping with oil prices, followed by materials and utilities. Health care and real estate came in the rear, with minimal change in either.

Fed Chair Powell's speech to the National Association for Business Economics was watched more closely than normal last week. (Fed members give a lot of speeches.) It was especially noteworthy for its hawkish tone (moving from 'steadily' to 'expeditiously' raising rates), which caused yields to continue to push higher, as chances of a 0.50% hike once or more have risen. Speeches are a subtle tool, but fall within the 'forward guidance' playbook. If markets expect the Fed to move at a faster rate, some of the central bank's work in tightening policy is already accomplished (at least for intermediate- to longer-term rates). Some of the more aggressive language is due to increasing consumer sentiment that inflation might be more persistent than first assumed—one of the Fed's biggest challenges is inflation becoming 'unanchored' from their long-term target, which can begin to alter consumer behavior, as it did in the 1970s. However, economists still have little insight into what causes consumer inflation expectations to evolve the way they do (well, aside from prices themselves). Stock investors have generally cheered the more hawkish language, as an aggressive Fed that achieves lower inflation readings would be a positive for equity markets. The wrinkle is rising recession risk.

Foreign stocks were also mixed last week, with gains in the U.K. and Japan offset by a weaker Europe and emerging markets. The regional results are unsurprising, considering the proximity and Ukraine/Russia energy price impact on Europe. Emerging markets were mixed, as countries such as Brazil gained sharply along with higher world commodity prices, while China fell back with concerns over growth and a continued pandemic lockdown for a greater segment of the population.

U.S. bonds fell back dramatically last week, as the Bloomberg U.S. Aggregate declined nearly -2% (worse than many bad years in total). With a yield cushion, credit outperformed treasuries slightly, and floating rate bank loans were minimally changed in price. The reality of a tougher Fed, ready to fight inflation at the expense of other concerns, appeared to be a key catalyst in interest rates moving higher across the yield curve. In fact, the 5s-10s treasury slope is actually slightly inverted at this point, although the 2s-10s remains minimally positive, albeit narrower. (Market probabilities of a recession in the next 12 months don't appear to be the base case, but they have certainly risen from very low levels.) Foreign bonds also fell back last week, not helped by a stronger dollar, in both developed and emerging markets. Interestingly, the Russian ruble recovered a bit on the week, with an announcement from Russia that foreign energy payments must be made in rubles—requiring foreign governments to reestablish ruble holdings (and boosting the currency in the process, as designed, in a way to circumvent the negative impact of sanctions).

Commodities gained several percent on the week, led by a double-digit increase in energy, while metals and agriculture also gained. The price of crude oil rose by over 10% to just under $109/barrel, with supply concerns not helped by pipeline disruptions and a separate drone attack on a Saudi fuel depot. Natural gas markets were affected by a potential deal between the EU and U.S. to provide LNG exports, although it won't make up for the significant proportion of Russian production; prices rose nearly 15% on the week in keeping with continued supply uncertainty in the sector. Sentiment continues to be driven by persistent demand globally, although tempered a bit by the Chinese lockdowns, while supply is a large wildcard.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.