Summary

Economic data for the week included declines in several national housing numbers, such as existing home sales and homebuilder sentiment; however, housing starts rose a bit. The index of leading economic indicators showed growth, but at a tempered pace from preceding months.

Global equity markets fell back last week, in keeping with continued concerns over the ongoing Ukraine war as well as hawkish rhetoric from global central bankers. Bonds declined due to that same rhetoric, which pushed intermediate-term interest rates higher, and foreign bonds hurt by a stronger dollar. Commodities reversed trend last week, by falling back across the board, notably in energy.

Economic Notes

(0/-) The **Philadelphia Fed manufacturing index** fell back by -9.8 points to a still-expansionary 17.6 in April, below the 21.4 median forecast. Under the hood, shipments and new orders both fell back sharply, but remained solidly positive. However, employment continued to see further expansion. Prices paid and prices received both increased, reflecting high current inflation trends. At the same time, delivery times fell back sharply, which implied that fewer respondents were being subjected to long delays (normally a sign of slowing economic activity, but in this case an improvement in bottlenecks, which itself is a positive). Additionally, assessments of business conditions six months out fell by nearly -15 points, but remained expansionary. Anecdotal commentary also pointed to the majority of firms needing to spend more on employee compensation than expected, which may have played a role in that overall downgrade of near-future business sentiment.

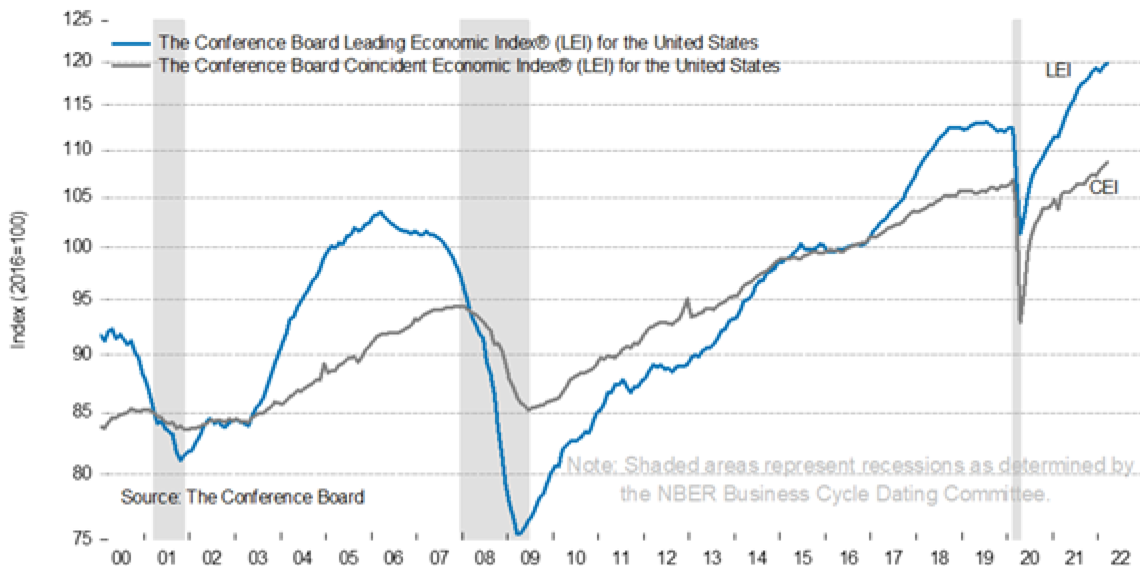
(-/0) **Existing home sales** in March fell back by -2.7% to an annualized seasonally-adjusted rate of 5.77 mil. units, but outperformed the prior month change and the median forecast of -4.1%. Single-family and condos/co-ops declined by similar degrees, as did most national regions, with the Midwest slightly underperforming at -4% and West faring better, by ending little changed. The median home sales price rose 1.6% to $375,300, which represented a 15% gain over the trailing 12 months, and, in fact, the highest median price ever recorded. (At the same time, sales were down -5% over the past year, as buyers continue to scramble for available homes.) The months supply of existing homes ticked up by 0.2 to 2.1, but remains below half of the level seen in 2019 (the last 'normal' year) and hovering near record low levels. The number of homes for sale has fallen nearly -10% over the past year. As consistently seen in other housing data, demand continues to sharply outpace available home supply. The wildcard now is higher mortgage interest rates, which rose by over a half-percent during February alone, and another roughly 1.5% since. These have traditionally dampened home demand historically, but the impact has tended to be lessened when available housing supply is low, as one might expect.

(+) **Housing starts** in March rose by 0.3% to a seasonally-adjusted rate of 1.793 mil. units, surpassing expectations of a -1.6% decline. This stealthily became the highest starts reading in 15 years. Under the hood, single-family starts fell by nearly -2%, while the more volatile multi-family starts category rose by nearly 5%. Regionally, Northeast U.S. starts rose by over 110% due to weather effects, while the South saw the largest decline of -17%. **Building permits** for March rose by 0.4%, which beat expectations calling for a -2.4% drop. The same pattern held true here as well, with single-family down -5% and multi-family rising 10%. The Northeast U.S. expanded by the fastest rate, of 11%, while permits in the West fell by over -3%. The housing industry is experiencing an unusual dynamic, with multi-family starts achieving multi-decade gains in volume in keeping with current high rental demand (up 26% year-over-year), while single-family struggles to catch up to a needed pace to satisfy demand for affordable housing nationwide (with single-family starts down over -4% from last year at this time). Multi-family housing is more quickly 'scalable', allowing developers to take better advantage of leverage and accommodative financing while conditions are good, but results in lumpier inventory

and rent cycles. Single-family homes are the segment of greatest need, with building picking up, but having still fallen short.

(-/0) The **NAHB housing market index** for April fell by -2 points to 77, matching consensus expectations. Current sales fell by -2 points, and prospective buyer traffic by -6 points, which were offset by a gain of 3 points in the future sales category. Regionally, the Northeast saw strong gains, while the Midwest and West declined. This survey can precede building activity in coming months, based on gauging preliminary demand. For perspective's sake, the index is down -7% from last year at this time, perhaps reflecting rising mortgage rates.

(+) The Conference Board **Index of Leading Economic Indicators** for March rose by 0.3%, which was roughly half the pace of the prior month. GDP growth for 2022 was also projected at 3.0%, which included a half-point downgrade from assumed impacts of the Ukraine war. The board was cautious, noting that lingering supply chain disruptions and inflation from pandemic shutdowns, labor shortages, and a tightening Fed. The coincident and lagging economic indexes rose in March by 0.4% and 0.6%, respectively, in line with the positive leading indicator readings. These stats remain positive, and indicative of a positive economic cycle; by contrast, a steady reversal of trend into the negative would raise the probability of recession in the coming six-month period.



(0) **Initial jobless claims** for the Apr. 16 ending week ticked down by -2k to 184k, but above the 180k median forecast estimate. **Continuing claims** for the Apr. 9 week declined sharply, by -58k, to 1.417 mil., below the 1.459 mil. median forecast. Initial claims were mixed, with little change by state, with larger declines in MO and MI offset by a gain in CA. The continued claims reading as a percentage of overall workers has been running at historic low levels, reinforcing the strong labor market and general floor for these two measures. In short, it's difficult to get much better.

(+/0) The **Fed beige book** for the period from mid-February through mid-April showed that economic activity generally expanded at a moderate pace nationwide. However, as expected, and which has been communicated on a continual basis, there remain challenges that have dampened growth below potential. Employment saw gains, although finding and retention of workers remain challenges across the country. Consumer spending rose, notably in retail and non-financial services along with an abating Covid environment. However, auto markets remain held back by low available inventories. Manufacturing activity remained 'solid' from a demand standpoint, although continuing to be disrupted by supply chain and inflation issues. In real estate, commercial activity ticked up 'modestly' in office and retail, while residential saw continued strong

demand but held back by tight supply. In agriculture markets, conditions were mixed—as higher crop prices are a boost to farmers, but higher input costs and drought conditions are proving challenging in some areas, notably through the southern plains. Overall, to no surprise, geopolitics and continued high inflation remain hurdles for the U.S. economic outlook. For the latter, a variety of firms have been passing through costs, although contracts are becoming more variable in many cases to allow for fast-changing prices. Many of these anecdotal comments inherent in the beige book reflect trends seen in broader national data.

Market Notes

Period ending 4/22/2022	1 Week (%)	YTD (%)
DJIA	-1.82	-6.42
S&P 500	-2.74	-9.99
NASDAQ	-3.83	-17.77
Russell 2000	-3.20	-13.28
MSCI-EAFE	-1.53	-10.02
MSCI-EM	-3.33	-12.22
Bloomberg U.S. Aggregate	-1.04	-9.49

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
4/15/2022	0.79	2.47	2.79	2.83	2.92
4/22/2022	0.83	2.72	2.94	2.90	2.95

U.S. stocks fared positively much of the week, but declined on net with Friday coming in as the worst day of the year so far. While corporate earnings results were decent for the most part (around a year-over-year pace of 8% for firms reporting so far, per JPMorgan), these were tempered by ongoing inflationary pressures, and newer concerns that the Federal Reserve may not only hike rates by 0.50% at the early May meeting, but could ramp up to possibly 0.75% per meeting hikes by the summer.

Consumer staples ended the week as the only sector in the positive, along with real estate. All other sectors were down to varying degrees, led by communications down over -7%, followed by weak results for energy and materials. In the communications sector, popular FANG group member Netflix was hit extremely hard last week, down -35%, as subscriber growth declined sharply. Obviously, the peak of at-home entertainment occurred during the pandemic, with subscription growth rising sharply, while that since has been expected to erode. ('Password sharing' is another problem the firm plans to crack down on.) A decline in growth isn't entirely surprising, with this being one of the 'Covid-on' stories evolving more toward more durable Covid-recovery themes (seen in the success of a variety of 'value' sectors). As economic behavior returns to normal, continued high growth expectations and accompanying higher P/E's would be under review. It's also a reminder of the high volatility of individual stocks, where a one-third loss of value based on a bad report is not unheard of, but can sharply affect the financial welfare of owners of very concentrated positions.

Also, concerns over economic growth have been rising, with the IMF the latest to forecast a deterioration in the growth pace to 3.6% in 2022 (from 4.4% earlier in the year) and down a few tenths to 3.6% in 2023. This was brought about by the Russian invasion of Ukraine, and impact upward on inflation in a variety of products. As it was described, this occurred as the world had been recovering, but not completely recovered from disruptions caused by Covid shutdowns. For the U.S. specifically, 2022 growth was downgraded from January's 4.0% to 3.7%, with less of an impact from Russia/Ukraine, but also with a more aggressive Federal Reserve hiking rates. However, this still remains higher than many private firm forecasts, calling for 2.5-3.0% or so this year.

Foreign stocks fared negatively, in keeping with similar sentiment as in the U.S.—the Ukraine impact on input prices and inflation, as well as increased central bank hawkishness. Europe fared slightly better than other regions, with PMI numbers coming in stronger than expected, further into expansionary territory. Emerging markets lagged developed markets, with China and Brazil pulling the group lower. China's decline was highlighted by government decisions to keep severe Covid lockdowns in place in Shanghai and other key cities, which have kept economic activity on hold except for firms where workers have been sleeping on site. Interestingly, the vaccination rates in China have risen, but the homegrown Chinese vaccines have proven less effective than the mRNA variety.

U.S. bonds fell back, with treasuries down a fraction of a percent, and outperforming investment-grade and high yield corporates. Floating rate senior loans suffered minimal declines. Foreign bonds fell back across the board, with the U.S. dollar rising nearly a percent on the week, affecting developed and emerging markets nearly equally. The U.S. treasury yield curve has continued to assume an interesting shape, with the 2-year through 5-year segments rising around a quarter-percent on the week, resulting in significant 'flatness' from 2-year out to the 10- and 30-year maturities. As we've talked about before, the 2-year is reflecting the presumed end of Fed rate hikes a few years out, with longer-term rates driven by assumed return to normal economic growth and inflation levels. Of course, 3-month rates aside, current levels beyond that are not far from an inversion, hence the rising recession worries.

Commodities fell across the board last week, due to a variety of cross-currents, interrupting their upward trend. The price of crude oil fell by nearly -5% to $102/barrel, due to concerns over slowing growth negatively affecting demand. Natural gas declined a sharp -9% due to rising inventories, which tend to be weather-related.

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, Matthews Asia, 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.

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