Summary

Economic data for the week included minimal revisions to prior-quarter U.S. GDP growth, and a slight decline in the pace of still-positive ISM manufacturing sentiment. Housing prices continued to rise at a solid clip, while labor markets continue to demonstrate a recovery, notably in nonfarm payrolls for March.

U.S. equity markets were little changed on net, and were outshined by gains in foreign markets. Bonds gained ground to end the quarter, as interest rates fell back from highs. Commodity prices fell back, led by energy, along with a potential increase in crude oil supply from government reserves.

Economic Notes

(0) The third and final report of **U.S. GDP** for the 4th quarter 2021 was revised lower by a tenth to 6.9%. Growth for 2021 in total was 5.7%, which is more than twice the recent trend rate. For Q4, consumption growth was revised down by over a half-percent, as were exports and intellectual property. On the other hand, there was a higher contribution to inventories by a similar percentage. The GDP price index, and PCE headline and core inflation indexes, were little changed from earlier estimates, and continue to run at high levels. For Q1 2022, the Atlanta GDPNow measure is currently estimating a growth rate of 1.5%, with the Blue Chip consensus forecasts running between in a range of about 1-3%, and a median of around 1.5-2.0%. While the size of growth has deteriorated, general expectations for the rest of 2022 and into 2023 have merged into existing long-term growth expectations of 2.0-2.5% or so. Of course, the speed of normalcy depends on a variety of factors, including inflation and supply logistical impacts, the resolution for which keep getting pushed out.

(0) **Personal income** for February rose by 0.5%, matching expectations, as wages rose sharply and offset a decline in government transfer payments. Income over the past year is up 6%, especially reflecting strength in wage growth. **Personal spending** decelerated to a 0.2% increase, well short of the 0.5% expected. Accordingly, the personal savings rate ticked up by 0.2% to 6.3%, but remains low compared to pre-Covid measures. The **PCE price index** for the month increased 0.6% on a headline basis, and upwardly-rounded 0.4% for core, largely on par with consensus. Year-over-year, headline and core gained 6.4% and 5.4%, respectively. These results have been normalizing in recent months, and moving away from exaggerated income and savings figures skewed by pandemic programs.

(0/-) The **ISM manufacturing index** for March fell by -1.5 points to 57.1, below the median forecast calling for 59.0, but remaining solidly expansionary. The sub-components of production and new orders fell back a bit, likely in keeping with uncertainty about Russia/Ukraine, but also remained in expansion; employment measures improved further into expansion. Supplier deliveries fell back a bit (noting faster turnaround) but prices paid rose by over 10 points—the logistical measures remain pegged near all-time highs as sustained improvement is still yet to occur. The high levels of demand tempered by challenged supply dynamics have been continually reinforced by anecdotal comments in this and similar reports.

(0) **Construction spending** in February rose by 0.5%, but short of the 1.0% expected. Private and public residential spending each gained over a percent, offsetting declines in public non-residential spending.

(+) The **S&P/Case-Shiller home price index** in January rose by 1.8%, beating expectations of 1.5%. The strongest gains were seen in San Francisco, Tampa, and San Diego, with increases of 2.5-3.2% for the month. Year-over-year national growth re-accelerated by 0.5% to 19.1%; this is obviously an extremely strong pace and indicative of meager inventories and high interest.

(+) The **FHFA house price index** for January gained a similar 1.6%, surpassing the median forecast of 1.2%. All nine regions saw gains, led by the South Atlantic (MD south to FL) and East South Central (KY, TN, MS, AL)—each up at least 2%. Year-over-year growth accelerated by another 0.5% to 18.3%.

(+) The Conference Board **index of consumer confidence** for March rose by 1.5 points to 107.2, slightly beating the median expectation of 107.0. Assessments of present conditions rose sharply, by 10 points, while expectations for the future declined by a few points. The labor differential, which measures the ease in finding employment, ticked up by a few points again to another all-time high.

(+) The **ADP private employment** report for March showed a gain of 455k jobs, down -31k from last month when revisions were included, but beating expectations calling for 450k. Service jobs rose by 377k; as has been the case in recent months, leisure/hospitality led the way with a gain of 161k (over 40% of all service jobs), education/health of 72k, and professional/business services of 61k. Goods-producing jobs rose 79k, which was also meaningful.

(+/0) The **JOLTs** government job openings report ticked down by -17k to 11.266 mil. for February, remaining above the 11.000 mil. expected. The general movement of jobs was mixed, with finance/insurance declining, while social assistance jobs rose by the greatest amount. The job openings rate was flat at 7.0%, while the hiring rate ticked up a tenth to 4.4%. On the other side, the layoff rate was flat at 0.9%, while the closely-watched (by the Fed and others) quits rate ticked up 0.1% to 2.9%, remaining at an elevated level.

(-) **Initial jobless claims** for the Mar. 26 ending week ticked up a bit, by 14k to 202k, marginally above the 196k consensus estimate. **Continuing claims** for the Mar. 19 week, on the other hand, fell back by -45k to 1.307 mil., well below the 1.340 mil. expected (and achieving another new low back to 1969 data). Despite the overall slight rise, initial claims fell back in key states, such as CA and NY. By almost all measures, the labor market remains tight. Claims levels have flattened a bit, based on the fact that substantial new claims require layoffs, and we're facing the opposite scenario.

(0/+) The employment situation report for March was decent, but a bit below high market expectations. Overall strength in these labor measures have pushed the Fed to acknowledge, in conjunction with inflation, that there are no barriers remaining to raising rates consistently this year—perhaps even by 0.50% at a time. **Nonfarm payrolls** rose by 431k, decelerating sharply from February, and still falling short of the 490k expected by consensus. However, prior months offered 95k of upward revisions. Job gains were strongest in leisure/hospitality (112k), professional/business services (102k), retail (49k), and manufacturing (38k).

The **unemployment rate** fell by -0.2% to 3.6%, a tenth better than expected. The household survey showed a rise of 736k within this measure, as the labor force participation rate ticked higher by a tenth of a percent, particularly with a rise in female employment. However, total participation for the U.S. still remains a full percentage below the pre-Covid level. Additionally, the U-6 underemployment rate declined -0.3% to 6.9%.

Average weekly earnings rose 0.4% for the month, on par with expectations. Year-over-year earnings rose 5.6%, led by gains for non-supervisory workers. **Average weekly hours** declined by a tenth to 34.6.

Market Notes

Period ending 4/1/2022	1 Week (%)	YTD (%)
DJIA	-0.12	-3.72
S&P 500	0.08	-4.27
NASDAQ	0.66	-8.68
Russell 2000	0.68	-6.58
MSCI-EAFE	0.78	-6.36
MSCI-EM	1.91	-6.64
Bloomberg U.S. Aggregate	0.75	-6.19

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
3/25/2022	0.55	2.30	2.55	2.48	2.60
4/1/2022	0.53	2.44	2.56	2.38	2.44

U.S. stocks were mixed last week, based on a variety of similar cross-currents. Gains were solid early, as hopes for progress in Ukraine-Russia peace discussions resulted in a rise in a sentiment, although the seriousness of talks seems debatable, based on the opinions of some experts. As it stands, Russia has intensified their focus on Eastern Ukraine, mentioning a possible North Korea/South Korea-like separate state scenario. This offers Russia the desired buffer on its western flanks from NATO, capture of desired energy reserves, as well as a face-saving retreat from the disastrous war performance in Ukraine's core region.

By sector, defensive utilities, health care, and consumer staples saw decent gains for the week, while 'value' financials, industrials, and energy lost ground by a few percent each. Real estate also gained, due to its defensive reputation, but also a fall in interest rates.

Foreign stocks were mixed to positive last week, helped by a weaker dollar. Europe and emerging markets gained ground, which offset declines in Japan. In EM specifically, several key countries saw substantial gains, as strong commodity markets and less expensive valuations have enticed investors.

The lockdown of the city of Shanghai over the prior weekend is significant, with its important from a global trade standpoint. It appears China's zero-Covid policy won't be abating any time soon, as they work to either develop or import mRNA vaccines on par with the West, although the policy has lightened up a bit in terms of semantics and tracing of cases.

U.S. bonds gained on the week, as interest rates fell back from recent highs. Investment-grade corporates outperformed treasuries, as spreads again tightened. Emerging market debt in particularly benefited from a weaker dollar. As it stood, U.S. bonds experienced their worst single quarter (Bloomberg U.S. Aggregate down -6%) since 1980, as interest rates rose across the curve.

The treasury yield curve, at least as defined by the 2-year/10-year slope briefly inverted last week, which again raises questions about recession risk over the next 1-2 years, per its historical relationship. However, the 3-month/10-year curve has not come close to inversion. (There seems to be a split in the economist/strategist community as to which slope measure is most preferred; usually, they show very similar metrics. In the current case, the 2-year treasury reflects expectations of a Fed tightening policy multiple times over the next few years, while the 3-month is a better gauge of today's conditions.) This will again be likely a closely watched relationship this year, with this barely qualifying as a real inversion so far. We often start seeing cries of, 'It's different this time,' which itself should always be viewed with suspicion. Historically, on average, stock returns have continued to be positive a year or even two beyond 10y-2y inversions, although each situation is unique.

Commodities fell back sharply last week, primarily in energy, but also agriculture to a lesser degree, and metals. The price of crude oil fell back by nearly -13% to just over $99/barrel, as the White House announced additional releases from the Strategic Petroleum Reserve, in an effort to boost supply and ultimately lower gasoline prices. Gas prices, even more than crude, have made energy price inflation even more tangible for most consumers. While politically seen as a positive, releases (of which there have been several dozen over the years) might only be a temporary fix for deeper structural hurdles in replacing prior Russian supply.

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.