OBSERVATIONS

- Rising rates weigh on mortgage demand: Mortgage applications declined -13.1% from the prior week, with total mortgage applications at their lowest level since December 2019. [1]
- The Federal Reserve approved new rules that aim to restrict Fed officials from trading individual stocks, bonds, cryptocurrencies, as well as a number of other securities. The new rules are a result of several Fed officials' resignations amidst backlash of personal trading activity during 2020.[2]
- Trading in penny stocks continues to normalize after peaking in February 2021 when speculation and stimulus checks collided. The total number of trades in so called penny stocks is down 70% from those peak levels as speculation wanes in the highly speculative world of penny stocks.[3]
- U.S. economic activity as measured by the Purchasing Manager Indices (PMIs) moved up across the board in February, with the manufacturing PMI rising to 57.5 up from 55.5 last month and the services PMI hit 56.7 up from 51.2 in January.[4]
- Personal income and spending in January were unchanged and up +2.1%, respectively, on a Month-over-Month (MoM) basis. Both figures were better than expected and the jump in spending represented the largest MoM increase since March 2021.[1]
- The Architecture Billings Index—a leading indicator of non-residential construction—remained steady at 51 in January, the same level as December. Any value over 50 indicates architectural firm billing growth.[5]

EXPECTATIONS

- The Federal Reserve's preferred measure of inflation, core Personal Consumption Expenditures (PCE), rose +5.2% on a Year-over-Year basis — the highest since April 1983. The reading was in line with median estimates and despite the Russian-Ukraine news, futures markets continue to be pricing in the possibility of a 0.50% rate hike in the March Federal Reserve meeting. Markets are in line with a number of Federal Reserve members who, in recent days, have suggested that the events in Ukraine do not change the underlying logic for a shift in monetary policy.[1]
- Macro events have overshadowed most of the Q4 earnings season which is winding down. In sum, 95% of S&P 500 companies have reported Q4 results, with 76% reporting better than expected earnings — in line with the 5-year average. Meanwhile, expectations for 2022 have drifted downward as earnings are now expected to grow by +8.5% on revenue growth of +8.1%. [6]

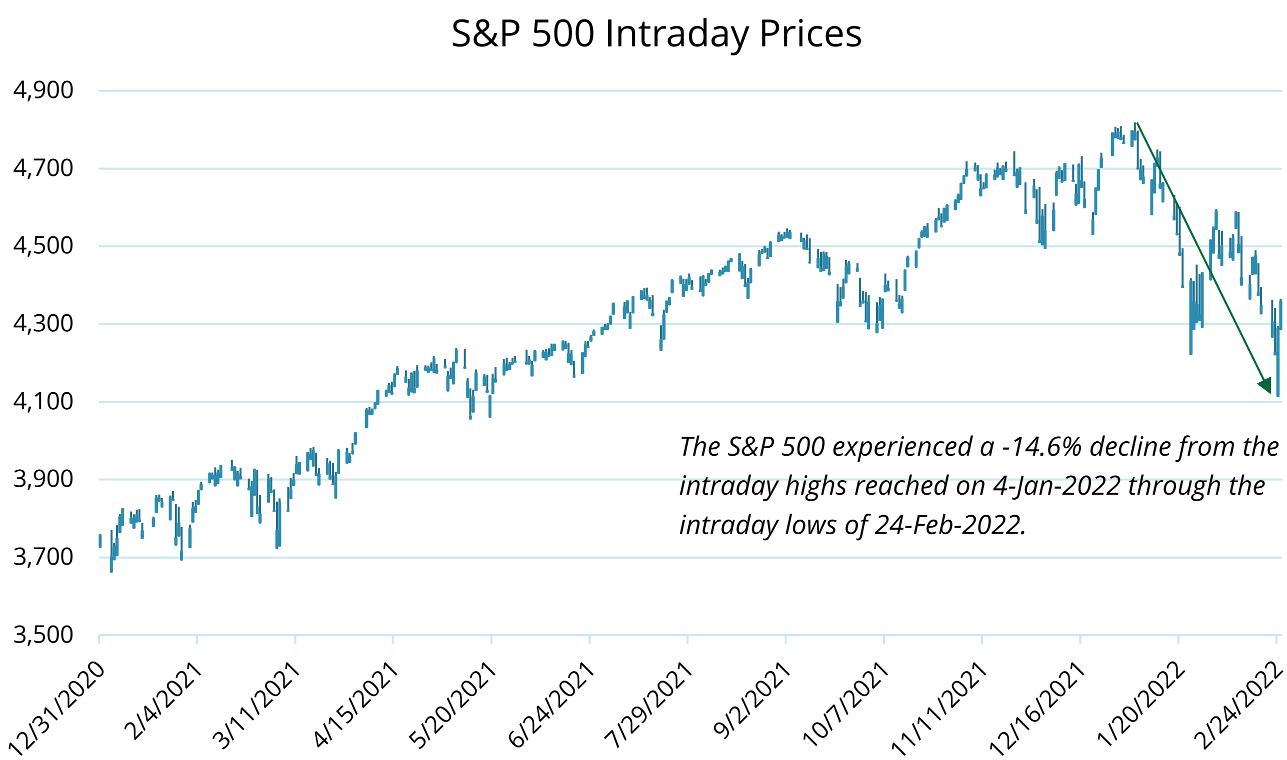
ONE MORE THOUGHT[1]: *Please see last week's special Research Corner and a brief update below*

The S&P 500 reached correction territory last week, having declined -11.2% YTD through last Wednesday (23-Feb) amidst the Russian/Ukraine turmoil. This marks the first -10.0% decline since the market reached its pandemic lows on 23-March-2020. Meanwhile technology-oriented companies continued to take the brunt of selling, with the Nasdaq declining -16.6% YTD, also as of 23-Feb. Both markets experienced sharp snap back rallies Thursday and Friday, remarkably the S&P 500 **gained +0.8%** on the week, while the Nasdaq **rose +1.1%** for the week. Meanwhile, bond markets offered little refuge during the volatile week for investors as bonds were sold; yields on the 10-Year

[1] Bloomberg LP
[2] https://www.nytimes.com/2022/02/18/business/economy/federal-reserve-trading-restrictions.html
[3] https://www.ft.com/content/2563363e-39b5-4841-bac0-3aff7157fe5b
[4] https://www.markiteconomics.com/Public/Home/PressRelease/74fab5cff0d4400fb5776c46db6db6c0
[5] https://www.aia.org/press-releases/6478928-architecture-billings-continue-growth-into
[6] Factset Earnings Insight, as of 25-Feb

U.S. Treasury rose +3bps to 1.96%, while yields on the 2-year U.S. Treasury rose +10bps to 1.57% The aggregate bond market (Bloomberg Aggregate Bond index) and the U.S. Treasury market (Bloomberg Treasury index) each retreated -0.3%, respectively, last week. Higher than usual volatility has been the name of the game so far in 2022 and will continue to be a fixture in markets for the foreseeable future.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 25-Feb-22, Daily high, low, open, and close prices

Before significantly rallying mid-day last Thursday and into Friday, the S&P 500 reached intraday lows of 4,114, on 24-Feb. That marked the lowest level for the index since May of 2021.

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead