OBSERVATIONS

- Rising mortgage rates hit mortgage demand in the most recent week, driven mostly by lower refinancing activity. Mortgage applications for home purchases are now down -12.0% from this time last year, while application for refinancing is down -54.2% from this time last year.[1]
- New home sales decreased to 772,000 on an annualized rate, 2% below January's revised figure of 788,000, but well above the average rate for new home sales in 2019 and pre-Covid 2020.[2] Home affordability may increasingly become a headwind to the housing sector as mortgage rates rise amid the Fed hiking cycle.
- The bond market was open last week which means U.S. Treasury yields went higher. Sarcasm aside, the U.S. Treasury market sell off continued with the 10-yr yield reaching 2.49% last Friday, touching intra-day the natural resistance level of 2.50%.[1]
- Initial unemployment claims in the most recent week fell to 187,000, while subject to revisions the figure stands as the lowest claims figure since the pandemic began and is the lowest since May 1969. Meanwhile, continuing claims for unemployment insurance (those who have filed and continue to receive benefits) stands at 1.35 million people — the lowest since Jan 1970.[1]
- New orders for durable goods orders fell -2.2% in February from January, which is the first monthly decline in new durable good sales after four straight months of monthly increases.[3]

EXPECTATIONS

- Russia's stock market partially reopened last week after being closed for nearly a month, with local investors able to buy and sell, but short selling prohibited along with any sales from foreign investors. The Russian MOEX Index traded up +4.4% on Thursday but fell by -3.7% on Friday. Before the invasion of Ukraine — in December 2021 — the Russian stock market had a total market capitalization of $840.0 billion—about 30% that of Apple's $2.7 trillion market cap.[4]
- Russia temporarily halted about 1.4 million barrels of oil a day from being exported from its Black Sea port of Novorossiysk allegedly due to storm damage that seems to require two-months of repairs for two of its three oil loading terminals. The price of Brent crude rose about 5% after the Russian announcement, meanwhile the Kremlin also announced that it began invoicing European buyers of natural gas in Rubles—the move may work to buoy the Ruble in the short-run but may require many long-term gas supply contracts to be renegotiated due to stipulating that both payments and pricing for oil be in Euros.[5]

ONE MORE THOUGHT[6]: *Inflation, rate hike cycles, and recessions*

As the Federal Reserve embarks on its first interest rate hiking cycles since 2015 all hopes are that the central bank is able to engineer a soft landing— that is, raising rates enough to tame inflation yet not stall the economy. The Fed is clearly in a predicament of sorts and the odds are stacked heavily against those objectives of balancing the taming of inflation without throwing the economy into recession. There's an unfortunate, yet important, historical perspective to reflect on as it relates to interest rates, recessions, and ultimately inflation. Aggressive rate hikes may choke off the economy, stalling growth, and thereby reducing inflation. So, there we have it, the solution to inflation

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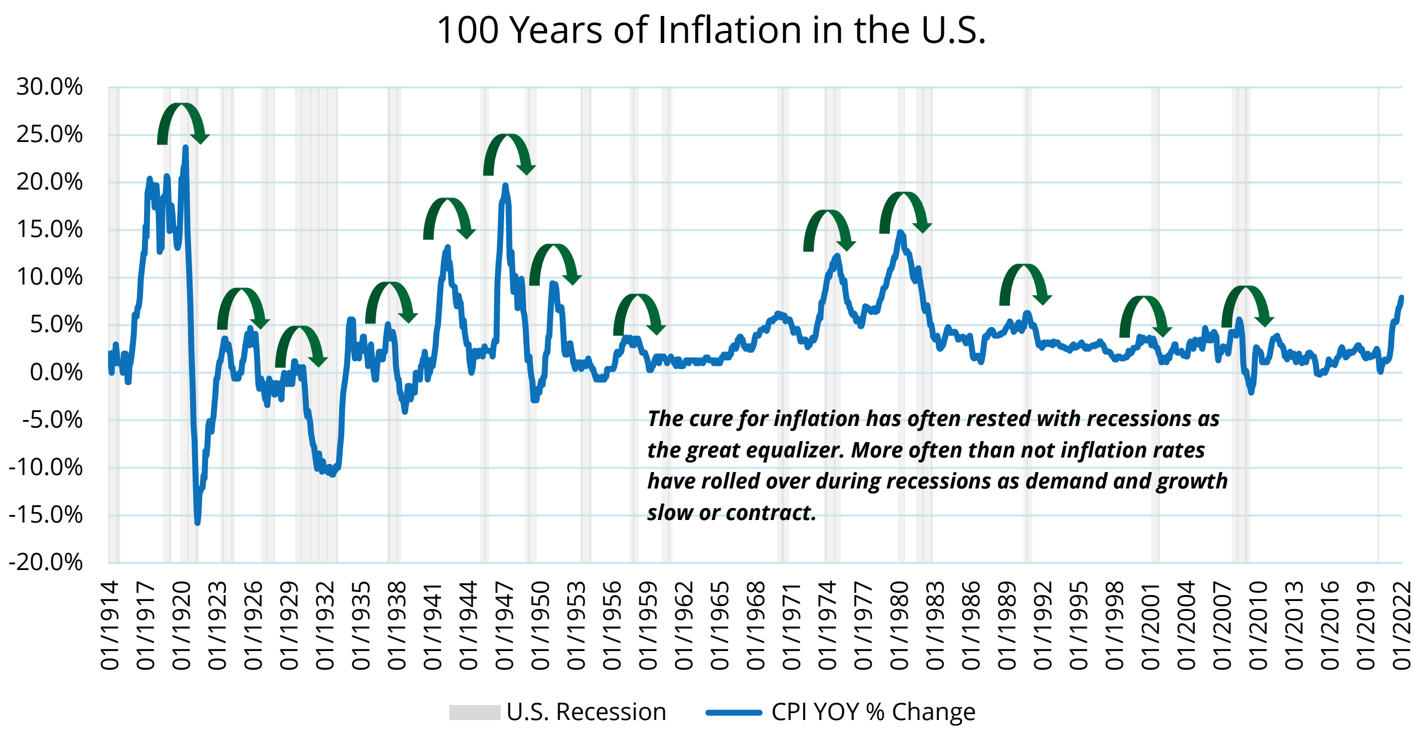
[1] *Bloomberg LP*
[2] *https://www.census.gov/construction/nrs/pdf/newressales.pdf*
[3] *https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf*
[4] *WSJ, Bloomberg LP, market capitalization data for Apple as of 31-Dec-2021*
[5] *https://www.ft.com/content/9d6fe3e6-597f-4089-a553-3f8a0edc18e8*
[6] *Clearstead, Schwab, Bloomberg LP*

is likely a recession and while the goal is to engineer a soft landing for the economy the odds are not exactly in the Fed's favor. Post WWII, there have been thirteen interest rate hiking cycles, of which only three did not result in a recession (1963,1994, and 2015). The other ten interest rate hiking cycles did precede recession — with recessions occurring nearly 2 years after the first interest rate hike (like the Fed's March 2022 rate hike). To be clear we are not calling for a recession two years from now, particularly given the internal strength of the economy. That said, the odds are rising though still quite low and there continues to be great path dependency as the pace of inflation will ultimately determine the aggression of the Fed's rate hikes and resulting economic impacts. For investor expectations one thing we are highly confident of is that volatility (across all markets) is likely to remain high for the foreseeable future.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 23-March-2022

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