OBSERVATIONS

- The Federal Reserve Bank of Atlanta calculates that nearly one third of the unemployed Americans are finding jobs within a month of losing or leaving their previous jobs. The so called 'job-finding rate' currently stands at 32.1% which is the highest level since the early 2000s (excluding the immediate aftermath of the pandemic).[1]
- The surge in bond yields was not just a U.S. centric phenomenon as Germany's benchmark 10-Yr government bond yield rose by over 80bps from -0.18% to +0.65% as of 31-March-2022, the largest quarterly increase since 1994.[2]
- Meanwhile, the negative yielding debt era approaches the end amid a backdrop of rising rates around the world. The total value of global outstanding debt with a negative yield fell to $2.9 trillion as of 4-April-2022 as bond yields rose throughout the globe during the first quarter. That stands in stark contrast to the peak value of $18.4 trillion of negative yielding debt from December 2020.[1]
- As a result of the rise in U.S. interest rates, the rate on 30-year fixed rate mortgages moved up over 100 basis points in the past six weeks and breaching 5% for the first time since 2011.[3]
- Chinese Caixin/Markit Services PMI fell to a reading of 42.0 in March from 50.2 in February, the largest single-month decline since February 2020. A spike in Covid cases and subsequent lockdowns in several large cities, such as Shanghai, are weighing on business activity in China.[4]

EXPECTATIONS

- The S&P 500 has rallied nearly +11% after reaching its recent lows in mid-March but remains -4.7% below the all-time high reached on 3-Jan. While we don't like to make predictions about short term market direction, sideways now seems like a reasonable expectation as we enter earnings season and await guidance from corporate America.[1]
- Chinese Premier Li Keqiang held a Chinese State Council meeting last week and announced several new provisions to buttress the Chinese economy in the face of the resurgence of Covid in China. The measures include tax cuts to industries impacted by the shutdowns, increased support for the unemployed and efforts to spur lending to small businesses and the private sector.[5]
- Minutes from the Federal Reserve's March meeting indicated the central bank would begin shrinking its balance sheet by $95 billion per month, starting in May. Many of the Fed's participants preferred a 50bps rate hike but given the added uncertainty of the Russian invasion of Ukraine "they judged that a 25 basis point increase would be appropriate at this meeting". After being mentioned once in the January Fed meeting, the word "Ukraine" appeared 20 times in the most recent meeting minutes.[6]

ONE MORE THOUGHT: *Investing through recessions rather than investing for recessions*

Continuing along the theme of interest rate hike cycles, recessions, and market returns. As we recently noted, recessions have tended to occur around 2 years after the commencement of a rate hike cycle — 10 of the last 13 rate hike cycles in the post WWII era have resulted in recession. Equity market returns, on the other hand, illustrate

---

[1] https://www.atlantafed.org/chcs/labor-report-first-look?panel=2
[2] Bloomberg LP
[3] St. Louis Federal Reserve – US 30-Year Fixed Rate Mortgage Average
[4] Goldman Sachs "China: March Caixin services PMI dropped to the lowest level since February 2020" 6-April-2022
[5] Goldman Sachs: "China: Latest State Council meeting announced more supportive measures" 6-April
[6] https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20220316.pdf

the importance of remaining invested as trying to time market declines related to recessions requires being right twice, when to exit and when to re-enter. Looking across the previous interest rate hiking cycles we have found the S&P 500 to have more mixed return characteristics within the first 12-month period of the rate hike cycle having started, compared to five and ten years later where market returns tend to be positive — those are periods of sufficient enough length where recessions have come and gone, and stock market returns reflect those experiences. Recessions tend to rebalance the economy and, more times than not, create the conditions for the subsequent business and market cycles. In short, bull markets end with bear markets which then turn to bull markets and on. With all the professional rhetoric, which will likely gather pace in coming months, related to recession odds and interest rates it is worth reflecting on actual market experiences while ensuring portfolios continue to align with objectives given the backdrop.

CHART OF THE WEEK

		S&P 500 AFTER RATE HIKE CYCLE BEGINS			
FIRST FED RATE HIKE	MONTHS AFTER FIRST RATE HIKE TO RECESSION START	1 YEAR	3 YEARS	5 YEARS	10 YEARS
April 25, 1946	31	-18.9%	-2.4%	+11.2%	+16.8%
April 15, 1955	28	+31.4%	+7.9%	+12.3%	+12.6%
September 12, 1958	19	+22.3%	+15.6%	+12.2%	+11.1%
July 17, 1963	No Recession	+25.6%	+11.5%	+11.7%	+7.8%
November 20, 1967	25	+19.5%	+0.4%	+8.2%	+4.2%
January 15, 1973	10	-17.9%	-2.8%	-1.4%	+7.1%
August 31, 1977	29	+12.5%	+14.1%	+9.6%	+18.5%
September 26, 1980	10	-6.3%	+16.3%	+12.9%	+13.9%
September 4, 1987	34	-13.4%	+4.3%	+9.3%	+14.7%
February 4, 1994	No Recession	+4.8%	+21.9%	+24.2%	+11.10%
June 30, 1999	21	+7.2%	-9.2%	-2.3%	-2.2%
June 30, 2004	42	+6.3%	+11.7%	-2.1%	+7.8%
December 16, 2015	No Recession	+11.3%	+10.7%	+14.5%	n/a
March 16, 2022	TBD	TBD	TBD	TBD	TBD
Average	***25 Months***	***+6.5%***	***+7.7%***	***+9.3%***	***+10.3%***

Source: Clearstead, Bloomberg LP, Charles Schwab, as of 30-March-2022. All periods greater than one year are annualized returns

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead