OBSERVATIONS

- Core durable goods orders *(items meant to last more than three years)* rose +1.0% in March, higher than forecast and indicates an uptick in capital expenditures, reversing the modest contraction in durable goods orders from the month prior.[1]
- The S&P 500 just notched its worst four-month start to a year since 1939 after declining -12.9% this year-to-date thru April.[1]
- The tech heavy Nasdaq closed out its worst month since October 2008 after losing -13.3% in April, pushing the index into bear market territory — now down nearly -24% since peaking in late November 2021.[1]
  - Meanwhile, the five largest stocks (Apple, Amazon, Microsoft, Alphabet, and Tesla) lost a combined $1 trillion of market capitalization in April alone.
- The U.S. dollar has rallied to multi-year highs against the world's major currencies amidst the backdrop of rising U.S. interest rates and rising geopolitical tensions. The Japanese Yen and the Euro have lost -11.0% and –7.0% against the U.S. dollar year-to-date and sit at five-year and twenty-year lows, respectively.[1]
- The trade deficit for goods reached a fresh record high of $125 billion in March as imports rose +11.5% from the prior month, while exports rose +7.2%.[1]The advance estimate for first quarter real GDP fell -1.4% (in nominal terms GDP grew +6.5%), the first decline in real GDP since Q2 2020. The softer than expected GDP figure was driven by decreases in inventories, a wider trade deficit, and slower government spending.[2]

EXPECTATIONS

- The Federal Reserve is set to meet this week, with an interest rate decision on 4-May — markets are priced for a +0.50% rate hike.[1]
- Nervous markets: In recent days, the Put/Call ratio for stocks reached the highest level since March of 2020. The Put/Call ratio is the ratio of investors betting on stocks declining to investors betting on stocks rising and the ratio is largely reflective of high investor anxiety heading into a significant part of earnings season. Volatility is likely to remain.[1]
- This earnings season has seen 55% of S&P 500 companies report so far with 80% of reporting companies posting better than expected earnings. The blended year-over-year (YoY) earnings growth rate for Q1 is +7.1%, though excluding Amazon (which reported disappointing results last week) earnings growth would be over +10.0% YoY. Next week will bring 160 more earnings results from S&P 500 companies.[3]

ONE MORE THOUGHT: *China's Covid policies set to snarl global supply chains over the summer[4]*

China's zero tolerance policy to Covid is based, in part, in the fact that only about half of its over 80 population has received vaccinations. Vaccination rates among younger cohorts of Chinese are much higher, but these groups are also less likely to die from a Covid outbreak. As a result, China has once again embarked on massive Covid testing protocols and zero-tolerance lockdowns once a few cases are identified—in early April nearly 20% of population and close to 15% of the economy was in a Covid lockdown—to contain the virus and buy time as they make a renewed push to get shots in arms. China accounts for about 12% of all global trade and the lockdowns have idled plants, closed ports, and disrupted trucking. While the lockdowns are more targeted than those China imposed in 2020,

[1] *Bloomberg LP*
[2] *https://www.bea.gov/sites/default/files/2022-04/gdp1q22_adv.pdf*
[3] *Factset Earnings Insight, April 29, 2022*
[4] *https://www.bloomberg.com/news/features/2022-04-25/china-s-covid-crisis-threatens-global-supply-chain-chaos-for-summer-2022*

they are nonetheless weakening the economy and set to snarl global supply chains for months to come. An industry association noted that only a week-long lockdown in the tech-hub of Shenzhen has caused most suppliers to delay shipments by a full month. As a result of the lockdowns, Goldman Sachs estimates Chinese real GDP growth fell from the +6% range in January and February to nearly zero in March and April. As China's economy grapples with ensuing economic slowdown, it has announced a slew of measures to get the economy back on track (see Chart of the Week). Despite these best efforts, the one-two punch of China's lockdowns and the Russian invasion of Ukraine, expect another summer of supply chain woes in the US and Europe.

CHART OF THE WEEK

Date	Announcement	Type	Likely Intended Impact
28-Apr	President Xi & Politburo called for a pause in regulations impacting Chinese tech firms	Regulatory	Ease uncertainty around tech and spur hiring in the sector
27-Apr	State Council meeting to stabilize employment and improve logistics operation	Fiscal	Government spending on select infrastructure projects
26-Apr	President Xi called for stepping up infrastructure construction at the CFEAC meeting	Fiscal & Regulatory	Administrative push for accelerating project construction
25-Apr	PBOC to decrease reserve requirement ratio for FX deposits, effective May 15th	Monetary	Support the depreciation of the Renminbi
25-Apr	State Council issued guidelines to promote consumption sector recovery	Regulatory	Lay groundwork for subsidies to employees/unemployed
20-Apr	State Council meeting to stabilize agricultural production and increase the energy supply	Fiscal	Policies to spur agricultural/energy supply; household subsidies possible
18-Apr	PBOC and SAFE released a comprehensive guideline on stepping up policy support to the real economy	Regulatory	Encourage depreciation of the Renminbi; export promotion policies
15-Apr	PBOC announced an effective 30bp RRR cut, effective April 25th	Monetary	Spur lending to private sector
6-Apr	State Council meeting to defer the collection of social insurance contributions and increase monetary policy	Fiscal	Effective tax cut to spur small business consumption and hiring
2-Apr	Vice Premier Hu Chunhua hosted meeting and called for greater effort to stabilize foreign trade	Trade	Encourage depreciation of the Renminbi; promote exports

Source: Clearstead, Goldman Sachs, WSJ 4/29/2022, PBOC = Peoples Bank of China, CFEAC = Central Financial and Economic Affairs Commission, SAFE = State Administration of Foreign Exchange

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead