

OBSERVATIONS

- Over \$2.0 trillion in market capitalization was wiped off technology and high growth stocks (Nasdaq Index) over the three-day stretch beginning on May 5th — that is more than the \$1.8 trillion lost during the worst three-day stretch amidst the pandemic.¹
- ‘Stablecoin’ scrutiny likely to heat up after TerraUSD — a crypto based ‘stablecoin’ intended to be pegged 1 for 1 with the U.S. dollar — has lost nearly 80% of its value. The systemic implications for ‘Stabelcoins’ have been noted by regulators, though inaction has been the name of the game thus far.²
- Headline inflation remains near 40-year highs, though softened from the prior month as the economy grows at a slower rate and the Fed continues to raise rates. Headline inflation is now 8.3% higher than a year ago, while excluding food and energy, core prices are up +6.2% from last year. That compares to +8.5% and +6.5% from last month, respectively.¹
- Producer prices also eased in April from decade highs, falling to +11.0% YoY from lasts month’s +11.2% reading.³
- Amid the highest inflation in 40 years and the S&P 500 closing in on bear-market territory, the Michigan Consumer Sentiment Index fell to 59.1—the lowest reading in a decade and not far above Great Financial Crisis lows.⁴

EXPECTATIONS

- The S&P 500 has declined -15.1% year-to-date as of 13-May, an occurrence that happens in stock markets about once every three years. Capital Group notes that “Every S&P 500 decline of 15% or more, from 1929 through 2020, has been followed by a recovery. The average return in the first year after each of these declines was 55%”, while we do not expect the average to be in the cards this time around, the point remains that stock market declines might be getting to a point of excess with a recovery now likely.⁵
- Realtor.com reported the first year-over-year increase in active listings since 2019, which suggests that along with the increase in mortgage rates—which reduces affordability—the increase in the supply of houses for sale will begin to curb the upward spiral of home prices.⁶
- Sri Lankan President named a new Prime Minister last week after monthslong protests—several of which saw violent clashes with police and the military, leaving nine people dead—over an economic crisis related to high food and energy prices spurred the previous Prime Minister to resign. As the war in Ukraine drags on, the likelihood for similar protests erupting in food and energy dependent nations—much of Africa and Asia—a summer of discontent is brewing.

ONE MORE THOUGHT⁷: *China and the U.S. inching toward compromise on potential ADR delistings*

The U.S. and China have been at odds over the U.S. regulators (PCAOB³) ability to audit Chinese firms listed on U.S. stock exchanges—primarily the NASDAQ—as required by the U.S. Holding Foreign Companies Accountable Act, which passed in 2020. The inability for the PCAOB to audit Chinese firms could result in the SEC moving to delist

¹ Bloomberg LP

² Coindesk, Coinmarketcap, Bloomberg LP

³ <https://www.bls.gov/news.release/ppi.nr0.htm>

⁴ <http://www.sca.isr.umich.edu/>

⁵ Bloomberg LP, Capital Group | American Funds, “How to handle market declines”

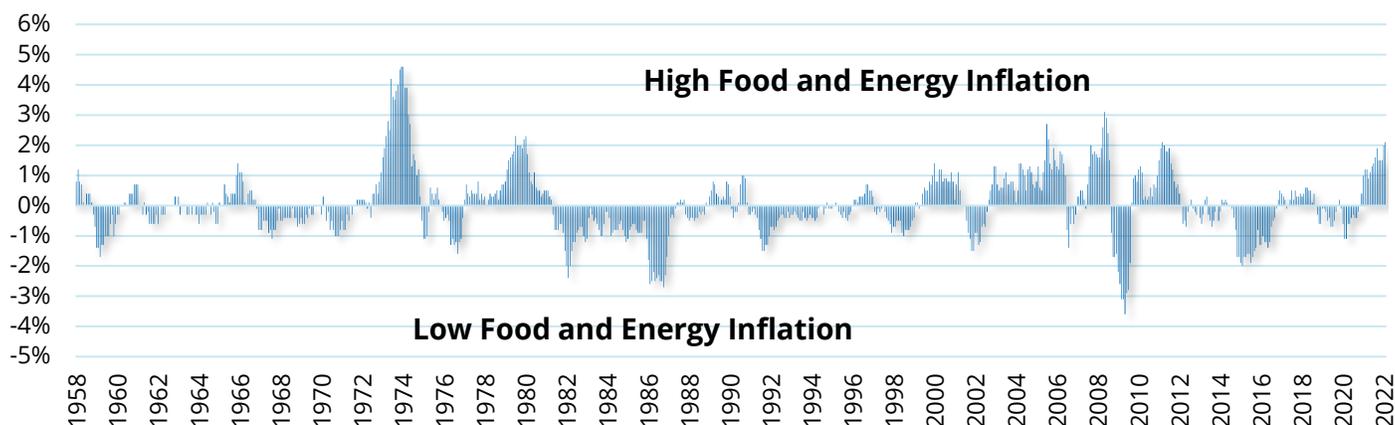
⁶ <https://www.realtor.com/research/weekly-housing-trends-view-data-week-apr-23-2022/>

⁷ <https://www.wsj.com/articles/some-chinese-companies-find-workaround-to-avoid-u-s-delisting>

these firms after 3-years of non-compliance. U.S. and Chinese regulators have been in talks since the law was passed looking for ways to avoid the potential delisting of Chinese firms that IPOed within the U.S. China is currently the only country that is unwilling to submit independent audits to PCAOB. Specifically, China restricts domestic companies to provide accounting documents to foreign regulators for examination as audit papers are considered "State secret". There are about 250 Chinese firms currently with ADRs listed on U.S. exchanges—with 7 of the 200 belonging to Chinese state-owned enterprises (SOE) that floated a minority of shares—and many of the non-SOE firms have indicated they could switch their accountants to one of the big-four U.S.-registered accounting firms to comply with the law. China has also hinted that it may allow full PCAOB audits for select, private firms in the coming months as a pilot-program that could be implemented more broadly for most non-state-owned firms. There is a current bill in Congress, the America Competes Act, which if enacted would require these issues to be resolved by early-2023 rather than current deadline of mid-2024 that is likely to spur a compromise on this issue by the end of the year. As stock markets swoon across the globe, both the U.S. and China seem disposed to alleviating further market uncertainty on this issue.

CHART OF THE WEEK

The Impact of Food and Energy Prices on Overall Inflation



Source: Clearstead, Bloomberg LP, CPI & CPI excluding food and energy, as of 11-May-22

Last week's inflation data showed food and energy are now more significant drivers of overall (headline) inflation. The difference between headline inflation and core inflation (which excludes food and energy) reached 2.1%, the highest since 2011. Risks remain for food and energy prices given the continued Russian and Ukraine conflict and it is safe to assume that food and energy inflation may keep the headline figure higher than expected.

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