OBSERVATIONS

- The S&P 500 briefly sat in bear market territory during intra-day trading last Friday, but managed to close only down -18.7% from its peak closing high on 3-January, after selling off for 3 of the 5 days last week.[1]
- Retail sales (ex. Auto and Gas) rose +1.0% month-over-month (MoM) in April, better than expectations for a +0.7% MoM gain. Meanwhile, March retail sales were revised higher from an increase of +0.2% to 1.2%.[1]
- Industrial production jumped +1.1% MoM in April, compared to expectations for a +0.5% gain. U.S. factory production has now increased for the fourth consecutive month and capacity utilization reached a 15-yr high of 79.2%.[1]
- India becomes the latest country to ban a food export (wheat) as food security amidst rising commodity prices comes front and center. Nearly 15 other countries have announced similar bans of food exports.[2]
- Rising interest rates continue to weigh on overall mortgage activity. Applications to purchase a home were down -12% from the week prior and are -15% below this time last year. While applications to refinance a new home fell -10% as compared to the prior week and are down over 75% from this time last year.[3]
- Gas prices have now reached $4.00 a gallon in all 50 states for the first time ever according to AAA. California tops the list with $6.02 average per gallon, while five states are above the $5.00 a gallon mark.[1]
- Municipal bond market technicals remain challenged in the current interest rate environment, outflows from municipal bond funds have reached 18 consecutive weeks totaling $54.8 billion.[4]
- Target had its worst single day drop last week since Black Monday 1987 — losing -25.0% — after citing persistence of "unexpectedly high" cost pressures impacting profitability.[5] Walmart also fell nearly -20% last week on margin pressure and missing its earnings estimate.
- China cuts key interest rate tied to long-term loans — which includes mortgages — by the most since 2019 in a bid to boost demand as COVID lockdowns weigh on Chinese economy and consumer sentiment.[1]

EXPECTATIONS

- Fund manager survey shows that hawkish central banks remain the number one risk for investors. Global recession and inflation were the second and third most cited investor risks in the survey.[6]
- Finland and Sweden officially abandoned centuries of neutrality and applied to NATO last week. Negotiations are likely to take between six to twelve months to complete. The vast majority of NATO members have publicly supported their membership, but NATO works by consensus and Turkey may slow-roll talks as it seeks concessions regarding the two countries' support for the Kurdish minority in Turkey.[7]

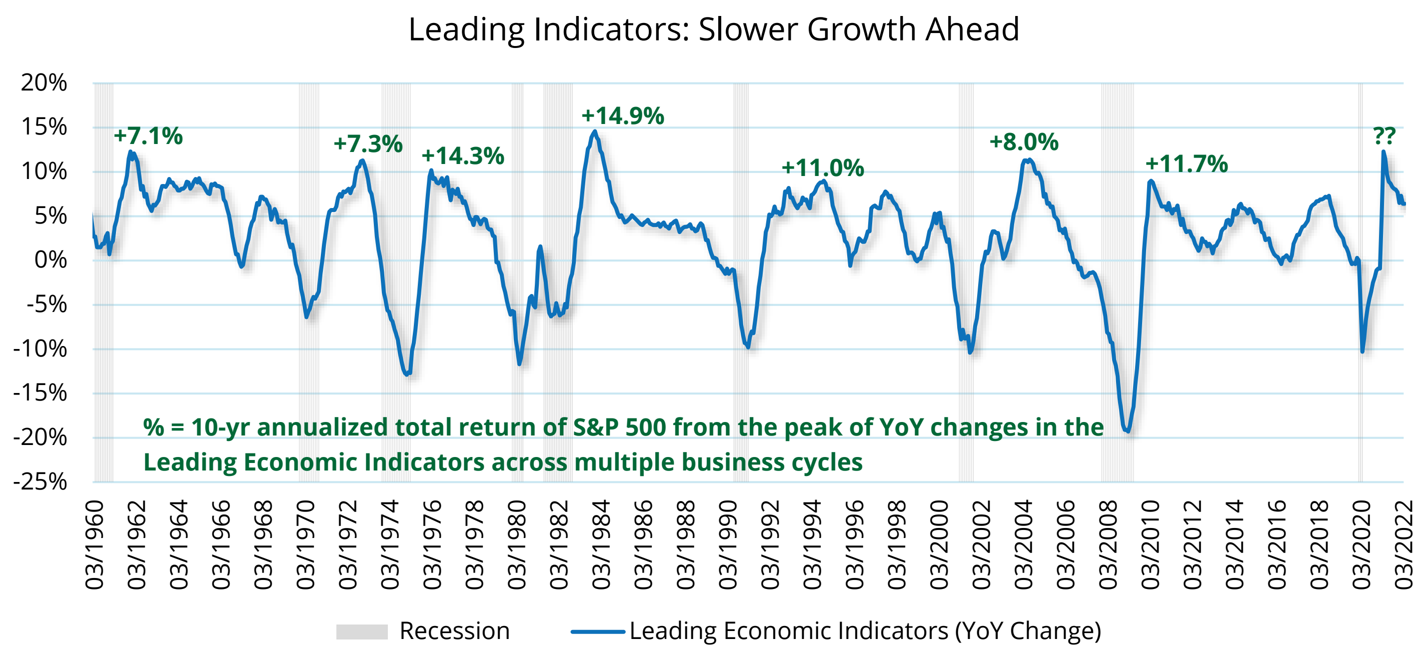
ONE MORE THOUGHT[8]: *Russia hurtling towards default*

U.S. Treasury Secretary, Janet Yellen announced last week that it would no longer allow an exemption to sanctions on Russia's financial sector that have allowed Moscow to continue to service Russian dollar-based debt obligations. The exemption is set to expire on May 25 and without its renewal by U.S. authorities Russia would be unable to

[1] *Bloomberg LP*
[2] *https://www.cnbc.com/2022/05/18/countries-banning-food-exports-amid-rising-prices-inflation.html*
[3] *https://www.mba.org/news-and-research/newsroom/news/2022/05/18/mortgage-applications-decrease-in-latest-mba-weekly-survey*
[4] *PGIM Investments*
[5] *https://investors.target.com/news-releases/news-release-details/target-corporation-reports-first-quarter-earnings-1*
[6] *Bank of America Global Fund Manager Survey, 12- May*
[7] *https://www.wsj.com/articles/finland-sweden-apply-for-nato-membership-breaking-decades-of-neutrality-11652854966?mod=hp_lead_pos7*
[8] *https://www.wsj.com/articles/treasury-likely-to-prevent-u-s-investors-from-receiving-russian-debt-payments-11652893435?mod=Searchresults_pos2&page=1*

make the needed dollar-based payments. Thus far, Russia has made good on its debt; making over $2.5 billion in debt payments since the beginning of its war with Ukraine. Nonetheless, Russia is already cut off from global debt markets and its default is now seen as all but inevitable—Russian debt is trading below 18 cents on the dollar. However, there are about $6 billion in credit default swaps tied to Russian borrowing and the last time Russia defaulted on its debt in 1998 reverberations in the global financial system ultimately led to the demise of the U.S. hedge fund Long-Term Capital Management (LTCM). While we are less concerned about another LTCM, it is likely to add to an already negative news cycle as markets search for a footing.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, The Conference Board LEI Index, data through 3/31/2022

The Conference Board's Leading Economic Index (LEI) consists of ten variables and is predictive of turning points in the U.S. business cycle by roughly seven months. The LEI consists of a wide array of variables that include unemployment claims, average weekly hours worked, building permits for new housing, S&P 500, yield curve, and sentiment (full details here). The LEI are confirming of expectations for a slowing economy, and stock returns, while we expect them to be lower going forward, can still be productive for long term investors.

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