OBSERVATIONS

- U.S. Purchasing Manager Indices (PMIs) softened in April—Manufacturing falling to 55.2 and Services to 53.5—but remain in positive territory—any reading above 50.0 indicates an economic expansion.[1]
- Despite headwinds related to the war in Ukraine and increased uncertainty about energy supplies, European PMIs softened, though remain in expansion territory with Manufacturing hitting 54.4 (an 18-month low) and Services registering 56.3.[2]
- U.S. durable goods orders increased in April +0.4% from March and excluding the volatile transportation and defense figures, still registered +0.3% gains which is a key proxy for overall business investment.[3]
- New homes sales decreased in April to 591,000 seasonally adjusted annualized rate, amid rapidly rising interest rates. This is -16.6% below the March-2022 new home sales rate and -26.9% from April 2021. With nearly 290,000 new homes currently under construction—the most since 2006—the inventory of new homes is set to increase throughout the year. [4]
- Personal spending rose in April by more than expected, rising +0.9% vs month-over-month expectations of +0.8%. Meanwhile the Fed's preferred measure of inflation (Personal Consumption Expenditures ex. Food and Energy) was in line with expectations at 4.9% and the year-over-year figure has now declined two months in a row as core prices moderate.[5]
- U.S. equity markets have seen share buybacks surge to new record highs—estimated to have hit $250 billion in Q1-2022 by large cap firms. Cash balances for U.S. large cap firms remains elevated and this year's sell-off has provided many firms the opportunity to buy-back shares at attractive valuations.[6]

EXPECTATIONS

- Most China analysts are actively revising down growth estimates for 2022 due to the Covid-lockdowns occurring in several major cities. Amid these prolonged economic disruptions, China's Premier Li held a teleconference last week with over 2,000 government officials to discuss front-loaded stimulus measures including new infrastructure spending, tax rebates, interest rate cuts, as well as other subsidies. Barring another Covid-wave, these measures should help the economy rebound this summer. [7]
- Minutes from the Fed's March meeting confirmed the consensus among Fed officials is that inflation risks were skewed to the upside including risks related to "supply bottlenecks and rising energy and commodity prices—both of which were intensified by the Russian invasion of Ukraine and COVID-related lockdowns in China." The minutes confirm 50-basis point hikes are the most likely outcome at both meetings this summer (June 14-15 and July 26-27).[8]

ONE MORE THOUGHT: *Staying invested*

Considering recent market volatility, we are going to return to a set of themes that we have written about several times before in Research Corner. The first five months of 2022 have been difficult. Wave after wave of selling and

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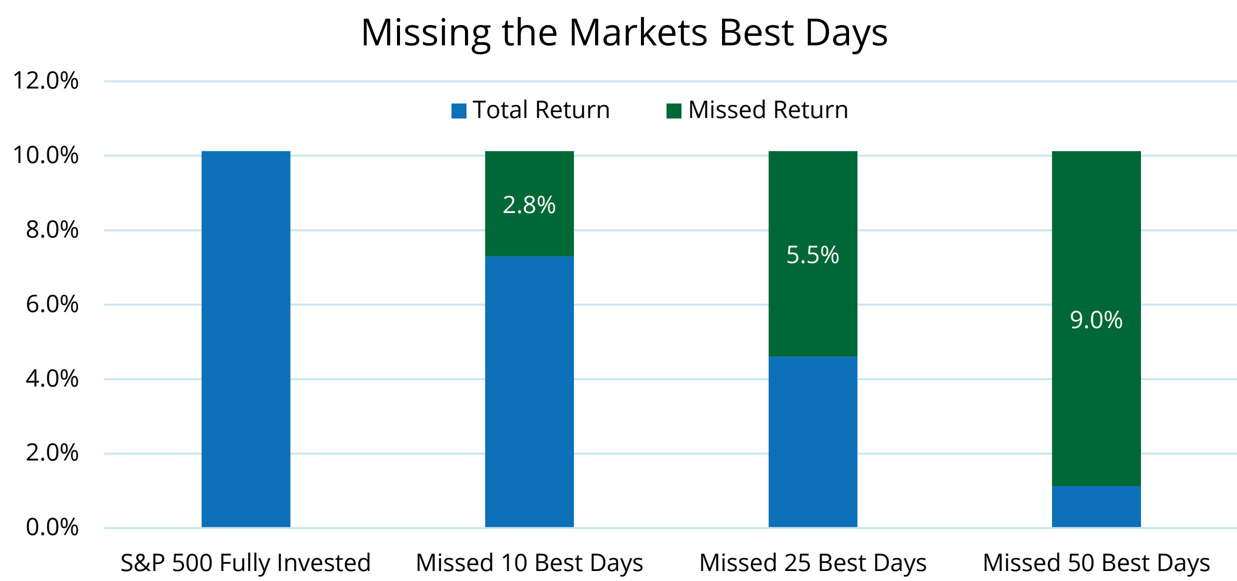
[1] *https://www.markiteconomics.com/Public/Home/PressRelease/b669b93cb25f4270952e1d9a03be464e*
[2] *https://www.markiteconomics.com/Public/Home/PressRelease/bc097909c30948a2aa6cdfc7f06a4db5*
[3] *https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf*
[4] *https://www.census.gov/construction/nrs/pdf/newressales.pdf*
[5] *Bloomberg LP*
[6] *Oxford Economics "Equities: Quick Take - Buybacks to support equities" 25-May-2022*
[7] *Goldman Sachs "China: Premier Li held a high-profile nationwide teleconference on growth stability" 25-May*
[8] *https://www.wsj.com/articles/fed-minutes-show-growing-urgency-for-tighter-monetary-policy-11653501768*

drawdowns in equity markets and other risk assets have left many investors fearing the worst. However, history and behavioral finance both provide key insights into how to navigate difficult markets. On May 20th of this year the S&P 500 narrowly avoided closing in bear market territory—capping a stretch that saw the S&P 500 lose -19% from its most recent market high on January 3rd. Revisiting some of those bear market statistics, they can last up to 2-years and can include drawdowns over -40%. However, most bear market declines (10 of the past 13 bear markets) have averaged about -28% from their respective peaks; in each bear market case (no matter extreme or mild in their declines) they set the stage for new bull markets. Equally, the market can move quickly and investors who try to time the market by trading out of equities as they decline inevitably miss big up-days and only realize the new bull market has started too late to fully participate *(see Chart of the Week)*. After seven consecutive weeks of declines for the S&P 500, the index just notched a +6.6% gain last week — the best week of the year and tenth best since 2006. Look for a thought piece from us in the coming days, digging in a bit more into recent drawdowns as well as expectations as markets head into the summer doldrums.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, 1992-2022, Past performance is not an indicator of future results

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