OBSERVATIONS

- Headline PPI (Producer Price Index) rose +0.8% month-over-month (MoM) to reach a pace of 10.8% year-over-year (YoY). Excluding food and energy, core PPI was up +0.5% MoM getting to +6.8% YoY—expectations were for modestly higher readings.[1]
- The S&P 500 entered bear market territory last week having now declined -23.0% (as of June 17) from the Jan 3, 2022, peak. Meanwhile the 10-Yr U.S. Treasury yield continued to march higher, at one point reaching an 11-year high of nearly 3.5% early in the week before settling at 3.23% to close out the week.[1]
- The crypto market declined to below $900 billion in total market capitalization following last week's big declines, getting back to the size it was in January 2021. Meanwhile, Coinbase—like several crypto tied firms—announced plans to lay off 18% of its full-time staff, and crypto lending platform Celsius ceased to allow withdrawals and seems to be heading towards bankruptcy.[2]
- Higher costs and a consumer spending shift from goods to services saw May retail spending fall to a seasonally adjusted 0.3% in May from the previous month, dropping from April's revised 0.7% increase.[1]
- Last week's Federal Reserve's June 14-15 meeting resulted in increase of the federal funds rate of 75 basis points (bps) and the Fed projected at least another 150 bps in hikes over the final six months of the year. The move marked the largest move in the Fed funds rate since 1994. More in Chart of the Week.[1]
- Mortgage rates (30-Yr conventional fixed rate) are now approaching 6%, the highest since 2008. Combined with the recent increase in high housing prices, home affordability is likely heading towards an all-time low.[3]
- Chinese economic data largely surprised to the upside in May; industrial production rose by +0.7% as compared to one year ago, a modest improvement relative to expectations for a drop of -2.9% YoY in April. Retail sales (+6.7% YoY) and fixed asset investments (+4.7% YoY) also rebounded from April numbers and beat expectations in May. China continues to struggle with Covid-induced lockdowns in major cities. [4]

EXPECTATIONS

- The Bank of England (BOE) raised rates by 0.25% to 1.25%, and markets currently expect the BOE to lift its policy rate to 2.75% by year end. Core inflation in the U.K. stands at 6.2% year-over-year, while food and energy have lifted the headline inflation figure to 9.0%.[5]
- Setting up for a relief rally? Less than 5% of S&P 500 members are trading above their respective 50-day moving average. A figure that has in the past represented short-term bottoms. Since, and including the Great Financial Crisis, the S&P 500 has hit this threshold seven separate times including during March of 2020. The average gain twelve months following the milestone has seen an average return of nearly +40% with the best and worst twelve-month periods having returns of +72% and +20%, respectively.[1]

ONE MORE THOUGHT: *Emergency European Central Bank meeting to stabilize Euro Sovereign Bond Spreads*[6]

The European Central Bank (ECB) held a rare "ad hoc" meeting last Wednesday to assure markets that Europe would not be facing another debt crisis. Problems started earlier in the month when the ECB announced plans to end its quantitative easing program and begin raising rates, which subsequently saw Italian and Spanish bond yields

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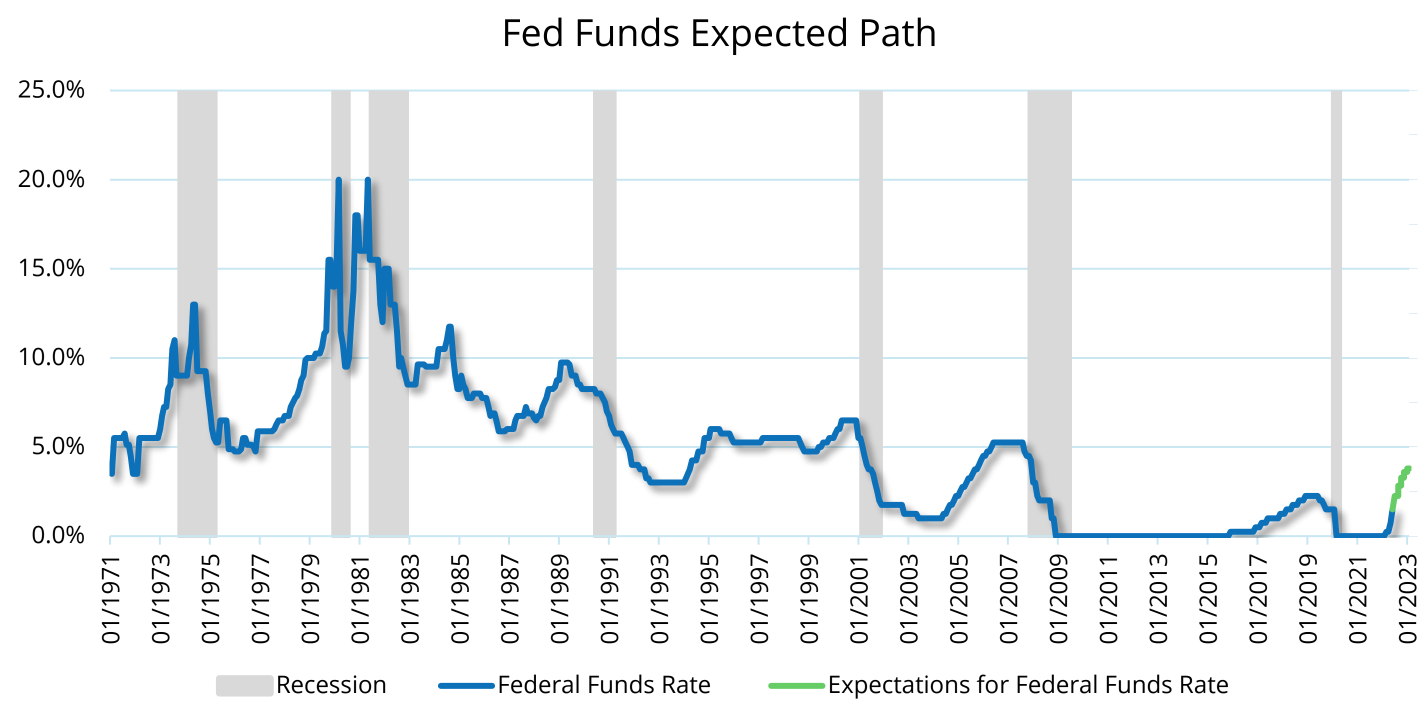
[1] *Bloomberg LP as of June 14, 2022*
[2] *Coinmarketcap.com, Bloomberg LP*
[3] *Bloomberg LP, Black Knight*
[4] *Credit Suisse "China Data: Despite Above Consensus May Data, Lockdown Uncertainty an Ongoing Risk to Annual Growth" 15-Jun-2022*
[5] *https://www.ft.com/content/6dea82f3-59ea-4736-a0db-b808f08bab6a*
[6] *https://www.ft.com/content/c519e5d5-f4c3-4554-9484-ddca75cf9bf3*

surged to their highest levels since 2014. In an effort to curb the rise in yields for the region's weaker Eurozone economies, the ECB announced a new "anti-fragmentation instrument." There were little details on how the new program would work, but it calmed fears in the market and pushed down the spreads of several countries' sovereign bonds over their German bond equivalent. Italian 10-year bond yields traded briefly north of 4%—levels not seen since 2014—prior to the ECB meeting but finished the week at 3.60%. Unlike the Fed, the ECB must worry not only about how its monetary policy will affect the overall growth outlook for the region, but also its impact on the more indebted European economies like Italy and Spain.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Projected path based on Federal Funds futures markets as of June 16, 2022

Futures markets have shifted expectations for the 'terminal' Federal Reserve interest rate to over 3.75%. If the Fed does hike the economy into an eventual recession, it is possible that outcome would unfold in late 2023 to early 2024 given a policy lag of 9-12 months from where we believe interest rates may become problematic for the economy to absorb.

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead