OBSERVATIONS

- Feels worse than it looks? With the S&P 500 down only -2.2% from the 52-week and all-time highs established on 2-Sept, **the median stock has declined -8.7%, while 45% of the index is trading -10%, or more, below their respective 52-week highs.** Meanwhile, every S&P 500 stock is below its 52-week high.[1]
- August retail sales jumped +0.7% MoM, significantly better than the median estimate for a -0.7% decline. That increase was offset by a negative revision of July's MoM decline which worsened from -1.1% to -1.8%.[1]
- Industrial production gained +0.4% in August, lifting industrial output back to pre-pandemic levels – though remains -2.5% below peak industrial production which occurred this time three years ago.[1]
- Cryptocurrency exchange Coinbase looks to raise $2.0 billion in 7- and 10-year notes in its first debt offering since becoming a public company in mid-April of this year. The company upsized the offering from $1.5 billion to $2.0 billion after receiving robust interest.[2]
- The Bitcoin network has already consumed more energy than it did in all of 2020. After gobbling up 67 Terawatt-hours (TWh) in 2020, Bitcoin is expected to consume over 90 TWh for all of 2021 – enough energy to power the University of Cambridge (the source for this data) for over 700 years.[3]
- China's push to curb pollution related to its steel sector — particularly ahead of the 2022 Beijing Winter Olympics — continues to weigh on iron ore prices. Output cuts have sent iron ore prices plummeting nearly -50% since mid-July, -20% last week alone.[1]
- Secondary equity share offerings reached a 2021 weekly high in the week following Labor Day with companies and/or their largest holders selling nearly $20 billion in the week.[1]

EXPECTATIONS

- Macro factors may drive markets as the Federal Reserve is set to meet on 22-Sept, followed by the 27-Sept soft deadline for an infrastructure bill vote, while 30-Sept marks the debt ceiling expiration. Lastly, policy risks in China (see One More Thought) could serve as a catalyst. While little surprises are expected, markets may look at these events for direction before earnings season begins.[1]
- The U.S. leverage loan market has not experienced a single default in four months and default rates now stand at 12-year lows in that market. Similarly, Fitch Ratings notes that high yield default rates are below 1% YTD this year, the lowest since 2007, and the ratings agency expects default rates in the high yield bond market to be just 1% in 2022.[4]

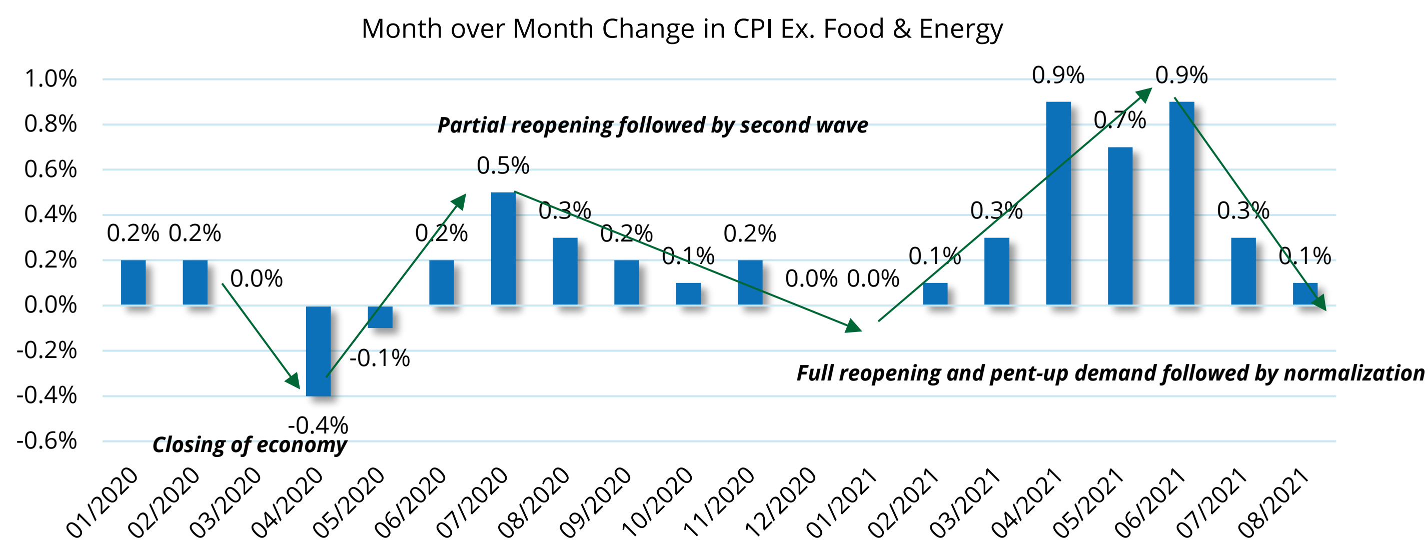
ONE MORE THOUGHT[5] *Chinese property market volatility spilling over in China*

Evergrande Property group is the number two real estate developer in China, and it is on the brink of financial collapse. China's major banks were notified last week by the Chinese Ministry of Housing and Urban-Rural Development that Evergrande will not be able to make interest payments on debt due on 20-September. Widely reported as the world's most indebted real estate firm—total liabilities are $305 billion—Evergrande is looking to extend payments and roll-over some loans amid a soft Chinese real estate market that is seeing prices fall and buyers hold off on purchases. Leading credit agencies have downgraded its debt to CC with a negative outlook. While Chinese authorities are unlikely to allow a disorderly unwinding of its real estate debts, the Chinese State

[1] *Clearstead, Bloomberg LP, data as of 17-Sept*
[2] *Bloomberg LP*
[3] *https://cbeci.org/cbeci/comparisons, Bloomberg LP, as of 13-September*
[4] *The Daily Shot, Credit Suisse, Fitch Ratings*
[5] *https://www.wsj.com/articles/evergrandes-woes-fuel-selloff-in-chinese-property-shares-11631777912*

seems unlikely to bail out the firm or provide much relief to its creditors and shareholders. Evergrande's demise was, in part, spurred by Chinese authority's efforts to curb speculation and borrowing within the real estate sector, blunt property price increases—to make homes more affordable—and force would-be credit investors to be more careful in the vetting of the creditworthiness of real estate firms. However, the implosion of Evergrande has spilled over to other property developers, many of which have stronger balance sheets as well as broader Chinese equity markets which have been weighed down of late due to new regulations aimed at Chinese tech that have the potential to squeeze margins and lower return on equity. Many analysts feel that much of the equity selling in Chinese equities has been overdone, but until the current regulatory uncertainty subsides, and the rules of the game become clearer, sentiment in the Chinese equity and real estate markets is likely to remain negative. Further, as we've noted in recent weeks, U.S. equity markets have not experienced a -5% decline in over 10 months and the Evergrande narrative may prove to be the spark that ends that streak.

CHART OF THE WEEK



Source: Bloomberg LP, Clearstead, as of 15-September

August inflation data continued July's trend as core prices continue to moderate following the peak observed in the June period. August CPI (Consumer Price Index) increased +0.1% on a MoM basis and +4.0% on a YoY basis – both lower than expected. Declines in airfare (-9.1% MoM) and used vehicle prices (-1.5% MoM) helped drive MoM CPI lower from the prior month.

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