OBSERVATIONS

- Bitcoin declined -12.8% last week in a volatile week driven by equity market volatility and by a more aggressive tone, once again, from China relating to the legality and legitimacy of cryptocurrencies.[1]
- U.S. existing home sales fell -2.0% from July to a seasonally adjusted annual rate of 5.88 million—which was 1.5% below existing home sales in August-2020. The supply of homes for sale remains limited which has caused prices to rise nationwide. [1]
- In contrast, new home starts surged in August rising +3.9% from July and +17.4% above new home starts in August-2020. Building permits also increased +6% from July and +13.5% above the level in August-2020.[2]
- Norway becomes the first G-10 country to lift interest rates (from zero to 0.25%), the central bank forecasts four more rate hikes by the end of 2022.[1]
- China Evergrande apparently missed a $83.5 million bond coupon payment last week but has at least a 30-day window before it is technically in default. It will need to restructure its debt as it owes nearly $700 million in interest payments over the next three months and remains largely unable to rollover any debt.[3]
    - In the meantime, China's central bank injected nearly $17 billion of short-term liquidity last week, the most in eight months, as the country deals with the specter of an Evergrande default.[1]
- The U.S. Energy Information Administration (EIA) noted that for the first time on record energy trade lowered the U.S. trade deficit in 2020. During 2020, net exports of energy products exceed the value of net imports of energy products by $27bn – the energy trade surplus is the first of its kind since at least 1974, when records began.[4]

EXPECTATIONS

- The Federal Reserve set the stage for tapering of asset purchase to begin in November and conclude towards the middle of 2022. At least half of the committee now forecasts at least one rate hike in 2022 and a full four rate hikes in total by the end of 2023.[5] The 10-year U.S. treasury yields rose to 1.43%, near 3-month highs and are likely heading higher amidst a more hawkish tone from the central bank.
- The U.S. House passed a stopgap spending bill—funding the U.S. government until the end of the year—as well as raising the U.S. federal debt limit, however it seems unlikely that the sixty votes needed to pass the bill in the U.S. Senate will materialize. This is likely to leave Democrats with the prospect of splitting the bill into the spending and debt ceiling provisions and passing the increase in the debt ceiling through the reconciliation process—which requires only 50 votes to pass but can take several weeks to tee-up.[6]
- Meanwhile the Treasury has indicated it will exhaust its extraordinary budgetary measures and anticipates that it will run out of funds shortly after 15-Oct-2021.[7] We expect both a stopgap spending bill—needed by 30-Sept — and an increase in the debt ceiling will pass Congress, but not before both deadlines are at hand.

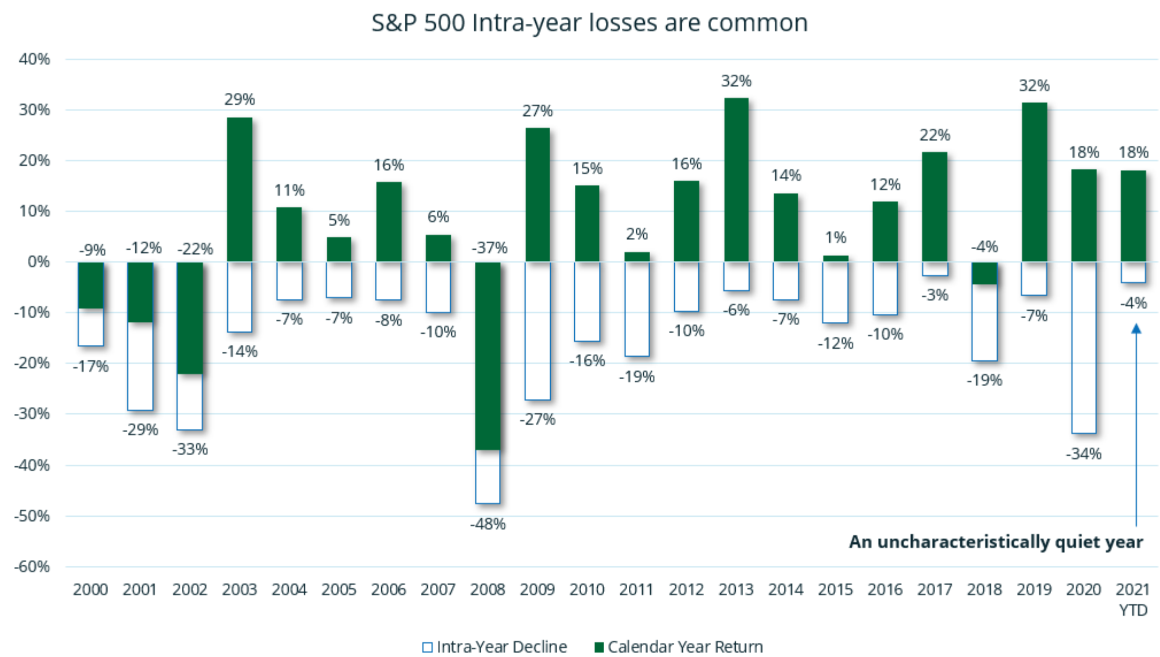
ONE MORE THOUGHT *Bracing for bumps ahead*

Last Monday, the S&P 500 experienced its worst day since 12-May and fifth worst day of the year after notching declines of -1.7% (the S&P managed to eke out gains of +0.5% last week). Meanwhile, small cap stocks (Russell 2000)

[1] *https://www.nar.realtor/newsroom/existing-home-sales-recede-2-0-in-august*
[2] *https://www.census.gov/construction/nrc/pdf/newresconst.pdf*
[3] *https://www.ft.com/content/e7c0f31d-4dff-4992-88e6-a70402b7b4bc*
[4] *https://www.eia.gov/todayinenergy/detail.php?id=49656&src=email*
[5] *https://www.wsj.com/articles/fed-tees-up-taper-and-signals-rate-rises-possible-next-year-11632333617?mod=breakingnews*
[6] *https://www.wsj.com/articles/debt-limit-suspension-set-to-pass-house-face-standoff-in-senate-11632251368*
[7] *https://www.wsj.com/articles/debt-limit-suspension-set-to-pass-house-face-standoff-in-senate-11632251368*

declined -2.4% on last Monday (ending the week +0.5% higher) and have traded sideways since early February. Remarkably, and in stark contrast to the S&P 500, the Russell 2000 has now experienced five declines of -5% or more in 2021. The recent market volatility, while unsettling, is likely to persist, given a seeming abundance of macro catalysts, in the near future. Our base case is for continued sideways markets near term with a potential for further downside (in the S&P 500) of -5% to -10% with support ultimately resting at the index's 200 day moving average. If a modest correction were to happen, declines of that magnitude would simply be reflective of average market experiences of recent years (see Chart of the Week). That said, macro catalysts will soon share the stage with updates from corporate America as earnings season begins in the coming days/weeks. For the third quarter, earnings are expected to be nearly +28% higher than this time last year (earnings growth of 28% would mark the 3rd highest quarter since 2010), while revenues are expected to be +14% higher than last year. Likely, of greater importance will be how companies guide for the coming quarter(s) — particularly as it relates to inflation and profit margins. Given all of this we think it best to make sure investing 'seat belts' are on.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 20-September, Past performance does not guarantee future returns

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