

OBSERVATIONS

- A messy week (with a potential for more to come): The U.S. 10-yr Treasury yield broke above 1.5% last week for the first time since June. Rising interest rates led to aggregate bonds (Bloomberg Aggregate Bond Index) declining -0.9% for September — the index's worst month since March 2021.¹
 - Rising interest rates weighed particularly heavy on growth-oriented stocks (Russell 1000 Growth), which declined -3.5% on the week.¹
 - Meanwhile, the S&P 500 experienced its first -5.0% decline since nearly a year ago (late October 2020) — the index lost -5.1% from its peak on 2-Sept through 30-Sept.¹
- Zillow Observed Rent Index is up +11.5% on a YoY basis, the highest YoY since the dataset began in (see Chart of the Week).²
- The National Restaurant Association operator survey: majority of respondents note business conditions are worse than three months ago, 91% of operators are paying more for food, 84% are experiencing higher labor costs, 78% cite employee shortages, and 95% of respondents noted supply delays or shortages.³
- New vehicle sales likely near 12.3 million (seasonally adjusted annualized rate – SAAR) in September according to new market forecasts. That would be 25% below one year ago and 33% below the 18.3 million SAAR (6th highest rate ever) witnessed in April 2021.¹
- Inflation in Germany jumped above 4% in September, nearly a 30-year high, as supply chain disruptions, temporary pressures, and now an emerging energy crunch (see One More Thought) pressure prices.¹

EXPECTATIONS

- Congress averted a government shut-down last week by passing a last-minute spending resolution that keeps the government funded until December 3rd but failed to advance President Biden's broader spending and tax agenda.⁴ We still expect Congress to pass a rise to the debt ceiling before 18-October—the date several estimates suggest the US Treasury will run out of money.
- German elections have resulted in the center-left Social Democrat Party (SPD) unseating former Prime Minister Angela Merkel's center-right Christian Democrats as the party with the most seats in the next Parliament. SPD leader, Olaf Scholz, will lead negotiations with the Greens and another smaller party to form a new government; negotiations between the parties for positions and priorities will likely take weeks.⁵
- Japan's ruling party, the LDP, elected a new leader Kishida Fumio—a former foreign minister—who will become Japan's new Prime Minister and lead the party in the upcoming November general election.⁶

ONE MORE THOUGHT⁷ *Energy Shortages Spread Globally*

Brent crude prices reached \$80 last week as demand outpaces supply amid diminishing inventories. In Europe natural gas prices have more than doubled in the last three months and hit record high, while the US natural gas prices jumped by 10% to reach nearly \$6 per million BTUs—the highest price in the US since 2014. In the UK, gasoline supplies are running short—some gas stations are limiting purchases to less than \$40—while electricity

¹ Bloomberg LP

² Zillow Observed Rent Index (ZORI), <https://www.zillow.com/research/data/>

³ <https://www.prnewswire.com/news-releases/restaurants-to-congress-our-recovery-is-moving-in-reverse-301387948.html>

⁴ https://www.wsj.com/articles/congress-set-to-avert-government-shutdown-11633011465?mod=hp_lead_pos2

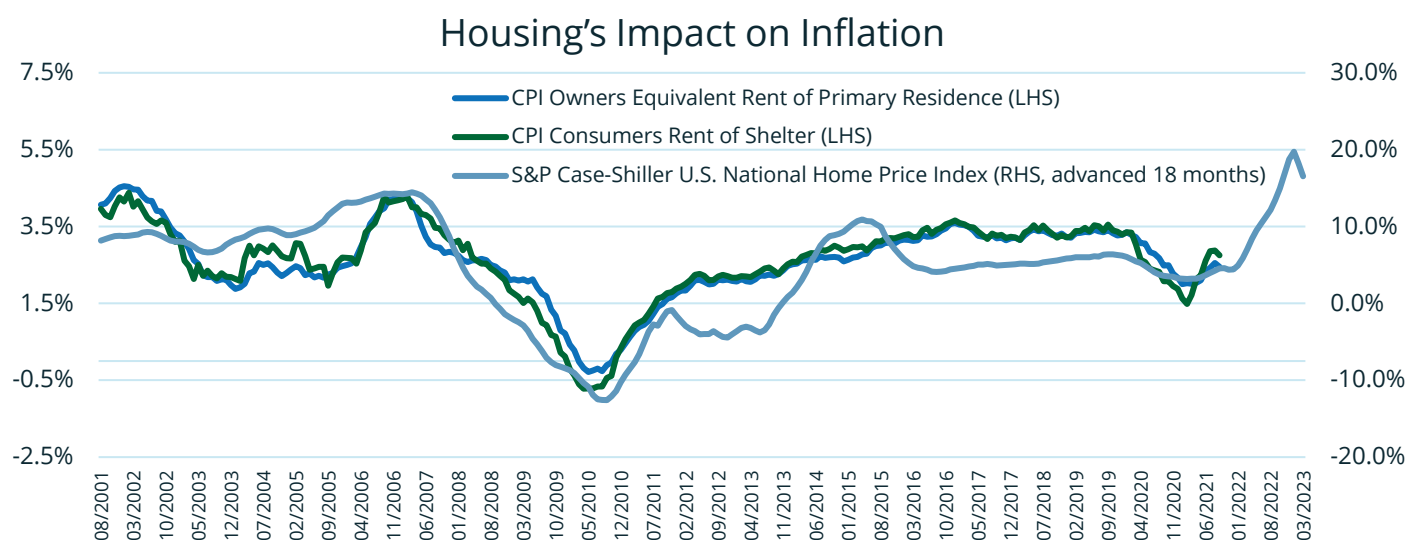
⁵ <https://www.ft.com/content/ed88dd51-ad3a-4bab-b5f4-d25db2adc907>

⁶ <https://www.ft.com/content/ed88dd51-ad3a-4bab-b5f4-d25db2adc907>

⁷ Bloomberg "Brent Oil Soars Above \$80 as Global Energy Crunch Shakes Markets" 28-Sep-2021

prices are soaring due to shortages of natural gas. Most of Europe is bracing for sporadic electricity and heating outages this winter as the supply of natural gas remains tight, amid under-investments in natural gas storage, an increasing reliance on solar and wind—which have been under delivering electricity supply of late—and strong demand for natural gas in Asia. Meanwhile, China is in the middle of a widening power crisis that is likely to diminish economic growth in the final quarter of the year and further snarl global supply chains. More than half of China’s mainland provinces are limiting electricity use among their major industries in order to save electricity. Many provinces have curtailed electricity production as the price of coal rose and they remain under pressure to hit emission and energy intensity goals, while abnormally hot weather and lower-than anticipated hydro-production have further strained local electricity producers. Simultaneously, Chinese demand for natural gas has structurally increased, due to efforts to curb green-house gas and pollution, which has further strained global supplies and diverted LNG from European markets. The end result is a perfect storm for the global economy that has pushed up energy prices and portend more economic disruptions in the months ahead.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 30-September

The lagged relationship between house prices and rents may be suggestive of housing having a more pronounced impact on inflation by late 2022/early 2023 as a ‘stickier’ source inflation — that is in contrast to ‘transitory’ variables (e.g., used car and airfare prices) which appear to be slowing.

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