

## OBSERVATIONS

- Manhattan apartment sales set a quarterly record in Q3 with over 4,500 in closed purchases in the quarter, the highest quarterly count since data began in 1989.<sup>1</sup>
- Chinese electric car company XPeng said that it has produced 100k cars, six years after the company's launch — half the time (12 years) it took Tesla to reach the same milestone after the company's launch.<sup>2</sup>
- Yields on the U.S. 2-year Treasury note reached 19-month highs of 0.37% last week as short-term bond markets digest the prospects for an eventual shift in interest rate policy by the Federal Reserve.<sup>3</sup>
- Last week's Labor Department's Job Openings and Labor Turnover Summary reported the number of quits reached 4.3 million in August, +242k from July—and is an all-time high as a share of total employment.<sup>3</sup>
- Headline U.S. inflation (CPI) rose to 5.4% YoY compared to 5.3% YoY in August, while core-CPI (excluding food and energy) was 4.0% YoY, unchanged from August. Inflation in September was driven by higher prices for energy, new cars, household furnishings, and rents, while prices of airline fares, and apparel declined.<sup>4</sup>
- Meanwhile, core producer prices (PPI excluding food and energy) rose 0.2% MoM and 6.8% YoY in September, both lower than estimates.<sup>6</sup>
- Social Security recipients are set to receive the largest cost of living adjustment since 1983 and eclipsing 2009's adjustment of 5.8%, with benefits expected to rise by 5.9% for 2022.<sup>5</sup>
- Chinese total social financing—a broad measure of the total credit and liquidity in the Chinese economy—slowed to 10.0% YoY growth in September from 10.3% YoY in August. The slowing growth of borrowing in the Chinese economy is being driven by a continued contraction in off-balance sheet borrowing—the shadow lending market—as well as bank loan growth related to the property sector, which remains under duress as Evergrande Group (see Expectations below), China's second largest property developer enters a bankruptcy process.<sup>6</sup>

## EXPECTATIONS

- Goldman Sachs economists reduce 2022 U.S. GDP growth down to 4.0% from 4.4% growth after, what Goldman dubs, a more prolonged 'virus drag' on consumer services spending.<sup>7</sup>
- Chinese debt markets volatility to continue: High yield bond markets in Asia have declined by 12.1% since late May as amidst continued property bubble concerns in China. Sales for China's ten largest property developers are down 44% from a year ago, underscoring the threat that the real estate market poses to China's economy. Sinic Holdings Group and luxury developer Fantasia Holdings Group join China Evergrande after missing either interest payments or repayments of bonds that have matured.<sup>8</sup>
- Nothing new but worth pointing out: Minutes from the Federal Reserve's 22-Sept meeting released last week point to strong consensus over the timing of the central bank's bond buying program —noting that under prevailing conditions a tapering could commence in November and could conclude by mid-2022.

<sup>1</sup> Bloomberg LP, Miller Samuel, Inc.

<sup>2</sup> <https://www.cnbc.com/2021/10/11/chinas-xpeng-nio-make-100000-electric-cars-in-less-time-than-tesla.html>

<sup>3</sup> <https://www.bls.gov/news.release/jolts.nr0.htm>

<sup>4</sup> <https://www.bls.gov/news.release/cpi.nr0.htm>

<sup>5</sup> <https://www.cnbc.com/2021/10/13/social-security-cost-of-living-adjustment-will-be-5point9percent-in-2022.html>

<sup>6</sup> Credit Suisse – Economics: China Data 13-Oct-2021

<sup>7</sup> Bloomberg LP

<sup>8</sup> WSJ, Bloomberg LP, Asia USD High Yield Diversified Credit Total Return Index 26-May to 11-Oct

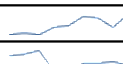
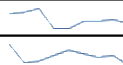
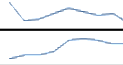
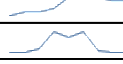


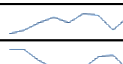
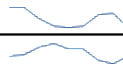
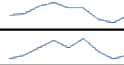
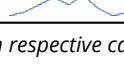
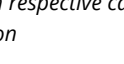
- It has been a solid first week of Q3 earnings with the largest US banks posting robust profits—Morgan Stanley, Bank of America, Citigroup and Goldman Sachs each posting better than expected results.<sup>9</sup>

### ONE MORE THOUGHT: Current Inflationary Trends May Persist into H1-2022<sup>10</sup>

Clearstead expects that well over half (by weight) of the components in CPI to trend higher in coming months, some of which are better categorized as being 'sticky' sources of inflation. Inflation readings are likely to remain somewhat higher for longer than most expect, particularly for those that have been in the 'transitory' camp — including ourselves. Supply-chain disruptions are abounding in most durable good categories and shipping costs—a combination of too few truck drivers and high fuel prices—have pushed up freight costs across the country. These factors along with higher prices in the housing sector are likely to increase the shelter/rent category within the CPI, which should keep the current inflationary levels—core CPI running at 4% YoY—in place for the next several months. However, runaway inflation, like that of the 70's continues to be a very low probability outcome and year-over-year inflation readings below 6% having generally been positive for risk assets.

### CHART OF THE WEEK

#### Selected Categories in CPI (MoM Change)

Selected Categories	Weight in CPI	January-21	February-21	March-21	April-21	May-21	June-21	July-21	August-21	September-21	Past Trend	Expected Trend
Food	13.9%	0.1%	0.2%	0.1%	0.4%	0.4%	0.8%	0.7%	0.4%	0.9%		Higher
Energy	7.3%	3.5%	3.9%	5.0%	-0.1%	0.0%	1.5%	1.6%	2.0%	1.3%		Higher
Apparel	2.7%	2.2%	-0.7%	-0.3%	0.3%	1.2%	0.7%	0.0%	0.4%	-1.1%		Moderating
New Cars & Trucks	3.8%	-0.5%	0.0%	0.0%	0.5%	1.6%	2.0%	1.7%	1.2%	1.3%		Moderating
Used Cars and Trucks	3.4%	-0.9%	-0.9%	0.5%	10.0%	7.3%	10.5%	0.2%	-1.5%	-0.7%		Lower
Medical Care Goods	1.5%	-0.1%	-0.7%	0.1%	0.6%	0.0%	-0.4%	0.2%	-0.2%	0.3%		Higher
Alcohol	1.0%	-0.1%	-0.1%	0.3%	0.2%	0.4%	0.5%	0.3%	0.3%	0.2%		Higher
Shelter	32.5%	0.1%	0.2%	0.3%	0.4%	0.3%	0.5%	0.4%	0.2%	0.4%		Higher
Medical Care Services	7.0%	0.5%	0.5%	0.1%	0.0%	-0.1%	0.0%	0.3%	0.3%	-0.1%		Higher
Transportation Services	5.1%	-0.3%	-0.1%	1.8%	2.9%	1.5%	1.5%	-1.1%	-2.3%	-0.5%		Moderating
CPI		0.3%	0.4%	0.6%	0.8%	0.6%	0.9%	0.5%	0.3%	0.4%		Higher

Source: Clearstead, Bloomberg LP, U.S. Bureau of Labor Statistics, as of 15-October, Color shading is relative to the figures in each respective category – e.g., Reds in the 'Food' category denotes higher inflation relative to other months in the 'Food' category, while blues is lower inflation



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<sup>9</sup> Bloomberg – 5 Things to Start Your Day 15-Oct-2021

<sup>10</sup> <https://www.bls.gov/news.release/cpi.nr0.htm>