

OBSERVATIONS

- Housing data showed that the number of U.S. homes under construction, but not yet completed has reached the highest since 1974. Order backlogs for single family homes — those authorized for construction but not started — remains near 15-year highs, while home-builder confidence continues to be well above pre-pandemic levels.¹
- Industrial production fell by -1.3% MoM from August to September, worse than expectations of +0.1%. The decline in production was driven by decreased energy output (thanks to Hurricane Ida), less utility output (less cooling demand), and lowered vehicle production on the back of component shortages.¹
- The S&P 500, amidst positive earnings, reached fresh record highs last Thursday after rallying +5.9% from recent lows set on 4-Oct thru 21-Oct.¹
- Meanwhile, 10-yr U.S. Treasury Yields reached 6-month highs of 1.70% and the 2-yr yield reached a new 2021 high of 0.43% last week as markets continue to price in expectations of rate hikes.
- China orders all coal mines to operate at full capacity as the country grapples with its worst power crunch in over 20 years — China consumes half of the world's supply of coal.²
- As China clamped down on Bitcoin (BTC) mining, its share of mining has dropped to zero while BTC mining in the U.S. has reached an all-time high of over 35% of global mining activity. Meanwhile, BTC reached an all-time high of over \$66k last week as ProShares launched the first BTC exchange traded fund – the fund gains its exposure through BTC futures markets rather than the cryptocurrency itself as the SEC has yet to approve any funds that would own the cryptocurrency outright.³
- Initial claims for jobless benefits reached 290k last week, the second consecutive week below 300k. To put that level into context, claims averaged 215k for the 6-month period before the pandemic crisis began.¹

EXPECTATIONS

- With nearly a quarter of S&P 500 companies reporting earnings, earnings growth is +32% higher than this time last year. This week will see a third of the index, 164 companies, report earnings.⁴
- Jens Weidmann, European Central Bank (ECB) member and President of Germany's central bank (Deutsche Bundesbank), announced plans to step down by year end. This comes after a decade of heading the Bundesbank and at a time where the ECB is, like the Federal Reserve, at an important policy inflection point as inflation pressures mount. The tri-party coalition negotiations to form a new German government after last month's elections may slow the appointment of a successor to Weidmann.¹

ONE MORE THOUGHT

Last week's Federal Reserve's Beige Book report — summary of commentary of economic conditions by the 12 regional federal reserve banks published eight times per year — noted the economy expanded at a "modest to moderate rate" with some districts noting slower growth driven by continued supply chain disruptions along with delta variant concerns. Also noted were general price increases across most regions stemming from supply and labor shortages, and transportation bottlenecks — specifically that *"... input cost increases were widespread across industry sectors."* While markets have largely discounted this information, the report corroborates our evolving view

¹ Bloomberg LP

² https://www.wsj.com/articles/china-takes-the-brakes-off-coal-production-to-tackle-power-shortage-11634727835?mod=markets_lead_pos3

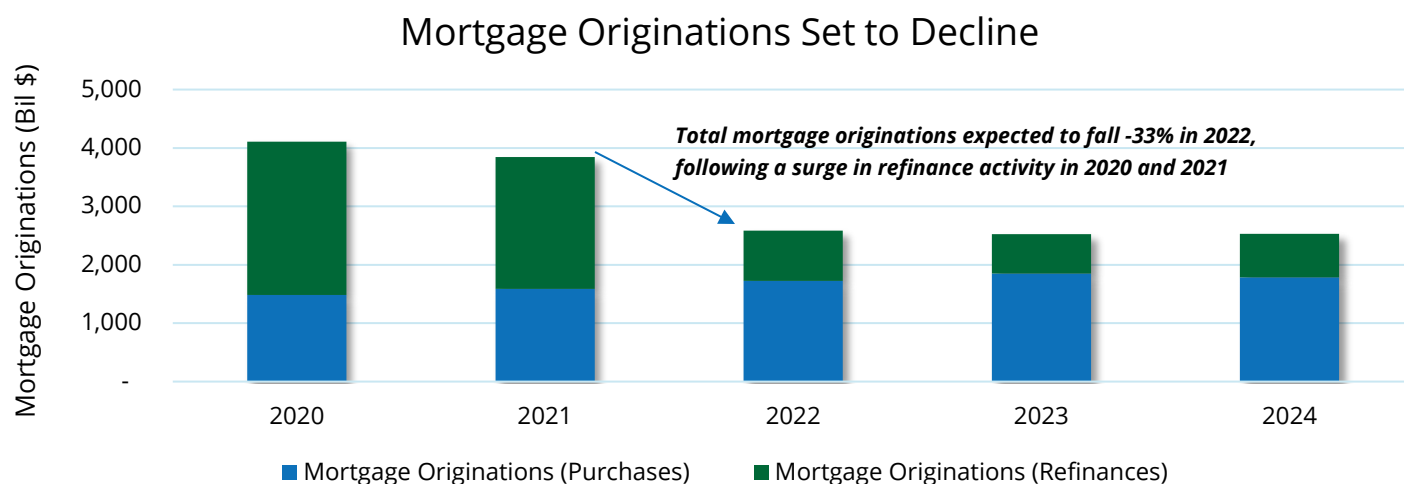
³ <https://www.proshares.com/funds/bito.html>

⁴ Factset Earnings Insight, as of 22-Oct

that higher average levels of inflation are likely to be a more permanent fixture for markets in the coming months. Additionally, it is worth noting some of the comments within certain regions:

- *"Ongoing growth in manufacturing alongside renewed growth in the energy sector supported the regional economy."* - Kansas City
- *"The district's economy expanded at a solid rate, with broad-based growth across sectors. Covid-19 and labor and supply-chain constraints remained headwinds."* - Dallas
- *"Retailers and manufacturers posted moderate to steep price increases amid ongoing supply disruptions. The outlook was cautiously optimistic."* - Boston
- *"While demand was still solid, supply chain disruptions tempered the pace of sales and output growth. The expiration of supplemental unemployment insurance benefits and a return to school did little to alleviate worker shortages, and wages continued to rise."* - Cleveland
- *"Fear and uncertainty of the Delta variant continued to constrain growth, but contacts were most worried by ongoing labor shortages and supply chain disruptions."* - Philadelphia

CHART OF THE WEEK



Source: Clearstead, Mortgage Bankers Association Mortgage Market Forecast, as of 17-Oct

The Mortgage Bankers Association's recent forecast are for a -33% decline in total mortgage originations in 2022. The group expects 10-year U.S. Treasury interest rates to rise to 2.3% with 30-yr fixed rate mortgage rates reaching 4.0% by the end of 2022. All of the declines are associated with refinance activity, which are projected to decline by over 60%, meanwhile new purchase activity is expected to grow by 9%.

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