

OBSERVATIONS: *Earnings season, China surprises, Leading indicators decline for 12th straight month*

- Corporate earnings reports were the most significant driver of news flow last week, particularly for banks. Overall, markets moved sideways with the S&P 500 down -0.2%, while the Russell 2000 (small cap stocks) was up +0.5% on the week. Treasury yields nudged higher ever so slightly with the 10-Yr US Treasury yield closing at 3.57%, +5bps last week.¹
- China's GDP rose by +4.5% in Q1 2023 on a year-over-year (YoY) basis, better than expectations of +4.0%. Consumer spending helped boost overall activity in China, with retail sales rising +10.6% YoY in March, beating expectations of a gain of +7.5%, and reaching a 2-year high.¹
- The Mortgage Bankers Association (MBA) 2022 performance report showed that for the first time since 2008 (when the data began), independent mortgage banks and mortgage subsidiaries lost just over \$300 on every originated loan, that compares to an average profit of \$2,339 per originated loan in 2021. Rising rates, declining volumes, and bloated expense structures of prior year's high-volume markets were contributors.²
- Housing starts fell -0.8% month-over-month (MoM) in March to a 1.42-million-unit annualized rate (-17.2% below this time last year). Data was mixed, however, as overall weakness was led by multifamily starts which dropped -6.7% MoM while single family starts rose +2.7% to a three-month high.³
- Modest softening in employment: Continuing claims for unemployment insurance—those that have filed an initial claim and continue to claim unemployment benefits—reached 1.865 million people in the most recent weekly data, the highest level since the week of November 27, 2021.⁴
- Leading indicators (Conference Board LEI Index) dropped -1.2% in March month-over-month, the 12th consecutive monthly decline in the LEI. The Conference Board “forecasts that economic weakness will intensify and spread more widely throughout the US economy over the coming months.”⁵

EXPECTATIONS

- About 90 companies within the S&P 500 have reported as of last Friday and 76% of those reporting have reported earnings' beats—which is thus far in-line with historic averages. With about 20% of the S&P having reported, Q1 revenue growth currently stands at +2.1% (YoY) while earnings growth is -6.2%. Revenue and earnings growth for 2023 are rapidly approaching zero; now projected to be +2.1% and 0.8%, respectively.⁶

ONE MORE THOUGHT: *Money market fund assets at new all-time highs, bank stress subsides for now⁷*

Money market funds have raked in over \$500 billion of inflows year-to-date, with total money market fund assets sitting at a new record high of \$5.2 trillion. Government money market funds, those that invest only in government related securities, account for over 80% of total money market fund assets and have been the primary beneficiary of the recent bank deposit fears. That said, flows into these funds appear to be normalizing as general deposit fears have subsided and stock market volatility has decreased (see Chart of the Week). Relatedly, use of the Federal Reserve's Bank Term Funding Program (BTFP)—created at the onset of the deposit scare in mid-March as a means

¹ Bloomberg LP

² <https://www.mba.org/news-and-research/newsroom/news/2023/04/06/imb-production-profits-falls-to-series-low-in-2022>

³ <https://www.census.gov/construction/nrc/pdf/newresconst.pdf>

⁴ <https://www.dol.gov/ui/data.pdf>

⁵ <https://www.conference-board.org/topics/us-leading-indicators>, Bloomberg LP

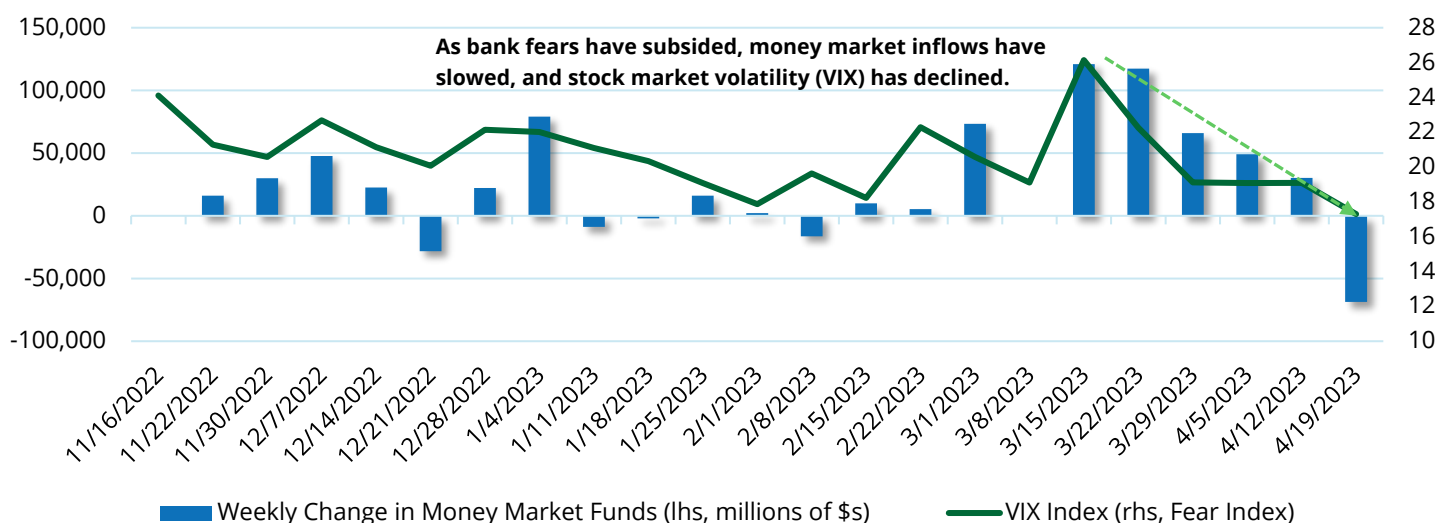
⁶ https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_042123.pdf

⁷ <https://www.ici.org/research/stats/mmfassets>, <https://www.federalreserve.gov/datadownload/Build.aspx?rel=h41>, Bloomberg LP, banks performance defined as S&P GICS Level 2 industry group for the S&P 500, S&P 400, and S&P 600, <https://crsreports.congress.gov/product/pdf/IN/IN12134>

to stabilize depository banking fears—has seen limited uptake as deposits have stabilized and other funding sources are utilized. Banks have secured \$74.0 billion from the BTFP as of the most recent data, down from the peak use of \$79.0 billion during the week ended April 5. Less clear are the banks that are using the facility as that data is not made available in real time, but we would posit that the BTFP use has been generally limited to less than a handful of banks that have dominated regional banks headlines. *The Fed is required to disclose BTFP participation with a one-year lag to limit the negative stigma associated with program use.* On a positive note, the large systemically important banks have thus far announced decent earnings in sum (*regional banks kicked off earnings season last week and will continue into the weeks ahead*). Unsurprisingly, bank stock performance has been dependent on size—since just prior to the collapse of SVB (3/8/2023), large cap banks are down -10.4%, while mid cap and small banks (where most regional banks reside) are down -18.2% and -197.7%, respectively through last Friday (4/21/2023). Considering much of the banking drama unfolded in March (at least for the stocks of these institutions) corporate guidance will be of more importance than Q1 earnings reports. Still, the likely outcome of expected tightening of lending standards, less availability of bank credit, and the need for deposit rates to rise are assumed to unfold over the coming quarters.

CHART OF THE WEEK

Stock Market Volatility and Money Market Flows



Source: Clearstead, Bloomberg LP, ICI Money Market Flows as of 4/19/2023 with interpolated estimate of flows for 4/21, VIX data as of 4/21/2023

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