OBSERVATIONS: *S&P closes above 5,000, record US Treasury bond auction, and services sector gets a boost.*

- Markets traded to new highs last week and the S&P 500 closed above 5,000 for the first time in history, while small cap (Russell 2000 Index) led for the week but remain more than -17% below their previous high set in November-2021. The S&P gained +1.4% last week small caps gained +2.4% and the yield on a 10-year Treasury rose +15 basis-points to 4.17%.[1]
- The services sector (Institute for Supply Management) expanded in January after registering 53.4, the fastest pace in four months, and beating expectations of 52.0. Of note, the prices paid component jumped by 7.3 points (the most since 2012) in the month, some of which was attributed to rising shipping costs amid escalating tensions in the Red Sea.[1]
- The senior loan officers survey generally showed that lending standards remain high and the overall demand for credit steady, but there is marginally less demand for commercial real estate loans.[2]
- The US government had its largest ever auction of the 10-Year US Treasury bond last week with $42 billion offered to investors mid-week. The auction was completed at a lower-than-expected yield, helping to allay fears that the increasing auctions size would cause problems for markets—for now.[1]
- Mortgage applications increased last week by +3.7% from the week prior, according to the Mortgage Bankers Association, and the average 30-year conforming loan mortgage rate remained steady at 6.8%. Mortgage applications have been steadily inching up since October-2023 when new mortgage applications hit a 30-year low on the back of mortgage rates that had climbed to nearly 8.0%.[3]
- Initial unemployment claims (seasonally adjusted) remain low, registering 218k last week a decline -9k from the previous week's 227k level.[1]

EXPECTATIONS: *Chinese markets closed, and earnings modestly improving after sluggish start.*

- China began its Lunar New Year holiday this past weekend and its mainland stock exchanges will be closed for this entire week, while Hong Kong stock exchanges will be closed today (12-Feb) and tomorrow (13-Feb). Chinese stocks remain firmly in a bear market with falling inflation and real estate troubles. Many investors will be looking to see what new policies Beijing enacts as part of their upcoming (early March) Two Sessions—China's Two Sessions are the annual meetings of the Chinese People's Political Consultative Conference (CPPCC) and the National People's Congress (NPC) whereby the formal policies (economic, social, and foreign affairs) of the Chinese Communist Party are adopted into official government programs.[4]
- With about 67% of the S&P 500 reporting, the Q4 earning season has shown steady improvement. At this point, 75% of firms reporting have posted positive earnings surprises, which is below the 5-year average of 77%, but above the 10-year average of 74%. The blended earnings growth (actual reported EPS growth + remaining estimated) for Q4 is 2.9% year-over-year—nearly double last week's blended figure.[5]

ONE MORE THOUGHT: *Delinquencies rising; credit cards and auto loans moving above pre-pandemic levels.* [6]

Last week the New York Federal Reserve released its quarterly report on household debt and credit showing non-housing debt reaching $4.89 trillion and housing debt of $12.61 trillion to end 2023, that compares to $4.64 and

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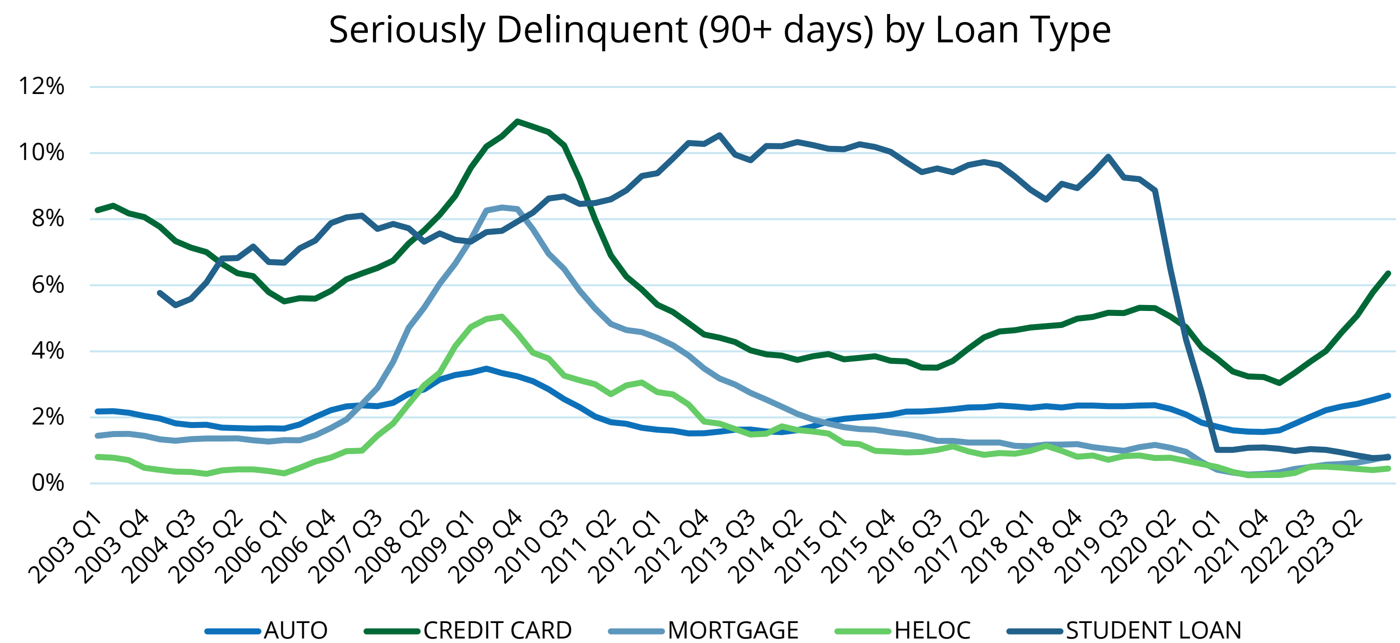
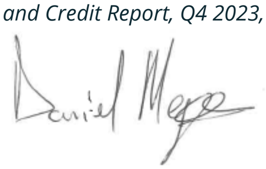
[1] *Bloomberg LP*
[2] *https://www.federalreserve.gov/data/documents/sloos-202401-table2.pdf*
[3] *https://www.mba.org/news-and-research/newsroom/news/2024/02/07/mortgage-applications-increase-in-latest-mba-weekly-survey*
[4] *https://www.uschina.org/events/2024-two-sessions-and-us-china-relations-briefing-english-language-hybrid*
[5] *FactSet Earnings Insight 2/9/2024*
[6] *https://www.newyorkfed.org/newsevents/news/research/2024/20240206*

$12.26 from year end 2022. As we have noted before, the higher rate environment has had a more pronounced impact on the younger and lower income cohorts. That weaker data has started to show in parts of the household debt and credit report. Notably, delinquency rates (see Chart of the Week) in credit card debt jumped to 6.4% to end 2023—the highest level since Q3 2011. Auto loan delinquencies have also risen past pre-pandemic levels having reached 2.7%, the highest since Q2 2010. Student loan delinquencies continue to be well below trend given loan repayments were just restarted during Q4—those figures are likely to trend higher in the coming quarters. Meanwhile for the largest part of household debt, mortgage debt, delinquencies are below historical trends currently sitting at below 1.0%, thanks to a healthy labor market and fixed rate mortgages that were generally refinanced during the post-Covid decline in interest rates. While nothing new for markets, the data corroborates some of the macro themes discussed in the past of the impact of higher rates on the economy. As of now, the brunt of the impact of higher rates has and will likely continue to be more notable in the riskier spectrum of borrowers, that goes for individuals as well as corporations.

CHART OF THE WEEK



Source: Clearstead, Federal Reserve Bank of New York, Household Debt and Credit Report, Q4 2023, CC = Credit Card



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