RESEARCH CORNER

OBSERVATIONS

- The 2-Yr U.S. Treasury yield reached 1.0% last week for the first time since February of 2020 as interest rate hike bets continue. Futures markets have now fully priced in four interest rate hikes of 0.25% during 2022.[1]
- Microsoft makes its largest ever acquisition after agreeing to buy game maker Activision Blizzard for nearly $70 billion in cash. The deal ranks as the largest cash takeover since the pandemic began.[1]
- Oil prices rally to multi-year highs amidst tightening supplies stemming from outages and further compounded by geopolitical tensions in Russia and Ukraine as well as a drone attack on oil facilities in the U.A.E. last week — West Texas Intermediate reached over $85 last week, the highest since the fall of 2014.[1]
- China's Q4 GDP grew by 4.0% year-over-year (YoY), which was less than the 4.9% YoY from Q3. Meanwhile Chinese industrial production grew by 4.3% YoY in December, faster than the 3.8% YoY figure recorded in November, but retail sales grew by only 1.7% YoY in December as Omicron-induced lockdowns weighed on Chinese consumer spending.[2]
- Given the outbreaks of Omicron and the slowdown in Q4 economic activity in China, the Chinese central bank announced last week a 10 basis-point rate cut—from 2.95% to 2.85%--and announced regulatory changes that should ease liquidity constraints in the Chinese property sector.[3]
- Existing home sales dropped 7.1% YoY in December, but for the full year, 2021 was the best year for home sales since 2006 with over 6.12 million existing homes changing hands.[4] Similarly, nearly 1.6 million new homes were started in 2021 — the most new starts since 2006, which had 1.8 million new housing starts.[5]
- While debate on regulatory authority over the crypto markets continues in D.C., SEC Chair Gensler warns of greater scrutiny for crypto exchanges as well as stable coins. Bitcoin has declined over -23% year-to-date (as of 23-Jan) to six-month lows and is down nearly -48% from its 9-Nov-2021 all-time high of $67,734.[6]

EXPECTATIONS

- Russian stocks take a hit as fears over a Ukraine invasion mount. The MOEX Russian index has lost -11.9% year-to-date thru 21-Jan, with the majority of those losses taking place last week. The geopolitical tension in the region is likely to keep global markets on edge in the near term.[7]
- 'Hawkish central banks' ranked as the most cited 'tail risk' in Bank of America's most recent fund manager survey. Inflation was second most cited risk, followed by asset bubbles and global growth scare.[8]
- 64 S&P 500 companies have reported Q4 financial results, 76% of which have delivered earnings that were higher than median estimates. This week will see 104 S&P 500 companies report earnings.[9]

ONE MORE THOUGHT[10]: *Significant rotation underway*

Equity markets have had a rocky start to the year with the S&P 500 declining -7.7% so far this year (through 21-Jan). While the month isn't over, if these declines hold, it will rank as the 2nd worst January on record (behind January

[1] *Bloomberg LP*

[2] *Goldman Sachs "China: Stronger-than-expected Q4 GDP and December IP but weak retail sales" 17-Jan-2022*

[3] *Goldman Sachs "China: PBOC press conference sends clear policy easing signals" 18-Jan-2022*

[4] *https://www.nar.realtor/newsroom/annual-existing-home-sales-hit-highest-mark-since-2006*

[5] *https://www.census.gov/construction/nrc/pdf/newresconst.pdf*

[6] *Coindesk, Bloomberg LP*

[7] *FT, Bloomberg LP*

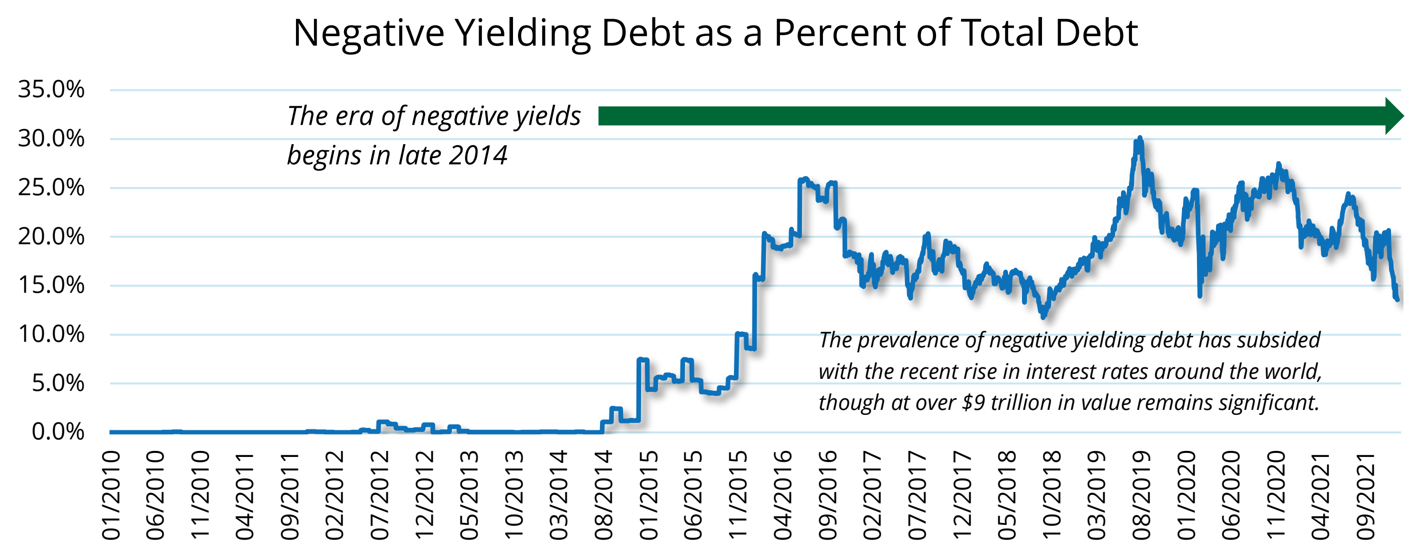
[8] *Bank of America Global Research, Bloomberg LP*

[9] *https://lipperalpha.refinitiv.com/2022/01/this-week-in-earnings-9/*

[10] *Clearstead, Bloomberg LP, all data as of 21-Janury-2022*

2009). Digging a little deeper we find that the most severe losses at this stage are within growth markets. The Russell 1000 growth index is now in correction territory, down -12.3% year-to-date (YTD), while the Russell 1000 value index is down just -3.6%. Meanwhile the broader small cap index (Russell 2000) has also entered correction territory, down -11.4% YTD. Small cap growth stocks have taken the brunt of the selling having declined -15.9% already this year. As we have littered throughout our commentaries, the toll of rising rates continues to pose limitations to bond market's ability to buffer the decline in equity markets. The bond market (Bloomberg Aggregate index) has lost -1.8% YTD, while high yield bonds (Bloomberg High Yield index) have done *relatively* better, having declined -1.5% to date. As it relates to recent declines, on balance we think markets are close to finding a footing — though geopolitical tensions in the Ukraine are fluid and may influence global equity markets in the near term. More importantly for investors, we continue to think it is important to expect higher levels of volatility than usual given the current uncertainty related to inflation, Fed action, and geopolitics.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Bloomberg Global Agg Negative Yielding Index, Bloomberg Global Agg Index market value, as of 19-Jan-2022

As interest rates have been rising across much of the world, the amount of outstanding debt with negative yields has declined to $9.1 trillion, or 14% of the total debt. This is over half less than the peak amount of negative yielding debt as a percent of total debt that existed back in September 2019. Of note, the German 10-Yr bond yield reached positive territory (0.001% yield) last week for the first time since mid-2019.

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