OBSERVATIONS

- The S&P 500 notched its best 3-day stretch last week (March 15-17) since November 2020 as U.S. markets continue to move past the Russian-Ukraine war. The S&P gained +5.7% during the rally — the seventh best 3-day rally since the pandemic began.[1]
- After reaching the highest level since 2008 of $130 per barrel on 7-March, oil (West Texas Intermediate) has lost -25% — though continues to gyrate just above the $100 mark.[1]
- Retail sales in China grew by +6.7% year-on-year, beating expectations by a wide margin — estimates were for a gain of +3.0%.
- The Bank of England raised its main policy interest rate for the third time since December-2021 to 0.75% in effort to blunt the rise of inflation, which the bank expects to hit 8% year-over-year by this summer.[2]
- U.S. housing starts increased to a seasonally adjusted annualized rated 1.77 million units, which is 6.8% increase over January's 1.66 figure.[3] Meanwhile homebuilder confidence remains strong despite dipping to 79—any figure above 50 represents positive homebuilder confidence—and has been above a reading of 70 for 21 straight months.[4]
- Industrial production rose in February by +7.5% from Feb-2021—which was a particularly weak month in 2021 due to adverse weather conditions hitting large portions of the U.S.—capacity utilization also improved in February.[5]
- U.S Retail sales also increased in February from January by +0.3% and unadjusted for inflation were +17.6% above the figure for Feb-2021.[6]

EXPECTATIONS

- Sarah Raskin withdrew from her nomination to the Federal Reserve as Senator Joe Manchin said that he opposes Biden's Federal Reserve nominee who would have served as the Fed's top banking regulator. Manchin's opposition has been focused on public commentary made by Raskin who had advocated for the discrimination of capital to traditional energy companies, which he views as potentially politicizing the Fed.[7] The Senate did confirm Biden's other four Fed nominees—J. Powell, L. Brainard, L. Cook and P. Jefferson.
- The Federal Reserve, as expected, raised the Federal Funds rate by +0.25% marking an end to the most recent zero interest rate policy regime. The Fed's updated 'dot plot' (an illustration of where the various members of the Fed expect the Federal Funds rate to be by year end) shows a median expectation of 7 rate hikes this year, now consistent with market expectations.[1]

ONE MORE THOUGHT[8]: *More China updates*

Amidst a falling stock market and new Covid-19 related lockdowns in select cities, Chinese Vice Premier, Lui He—President Xi's closest economic advisor—convened a special meeting of one of China's primary economic committees and publicly declared that China would take measures to stimulate the economy, introduce policies

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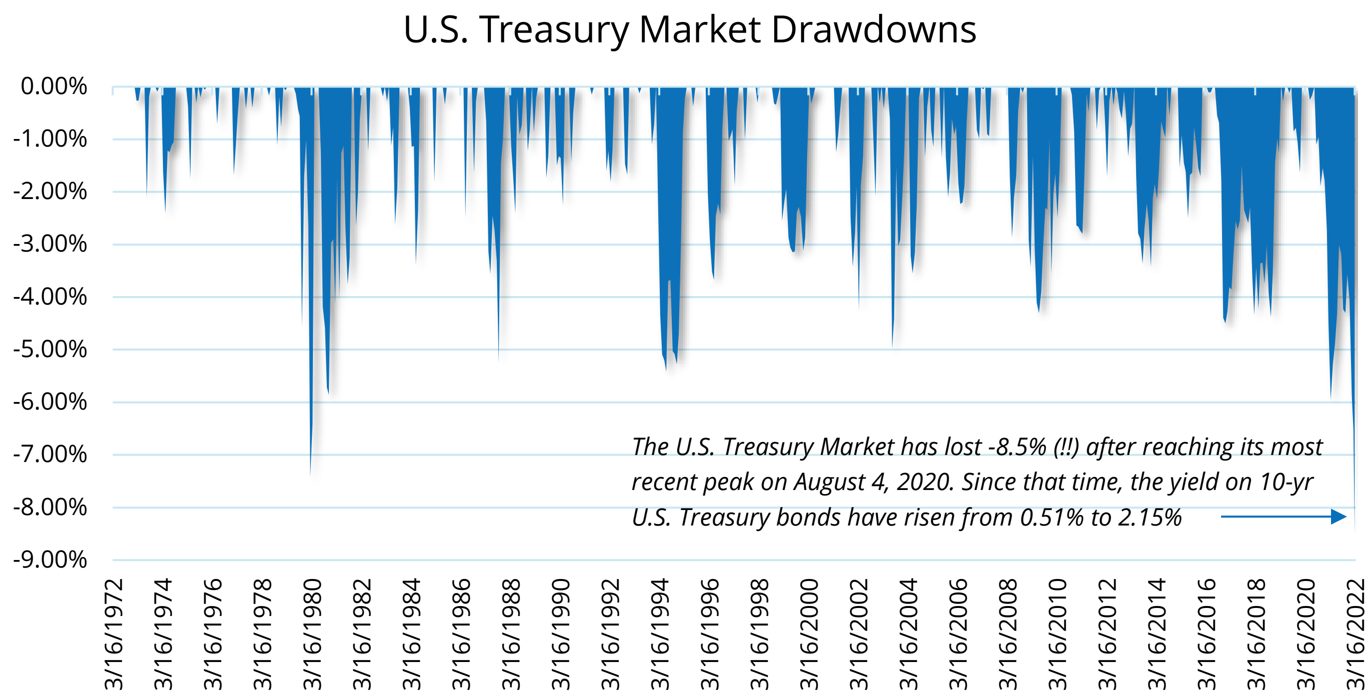
[1] *Bloomberg LP*
[2] *https://www.ft.com/content/d6cc373c-b45c-4c6e-821b-13f4f3bd3e32*
[3] *https://www.census.gov/construction/nrc/pdf/newresconst.pdf*
[4] *https://www.nahb.org*
[5] *https://www.federalreserve.gov/releases/g17/Current/default.htm*
[6] https://www.census.gov/retail/marts/www/marts_current.pdf
[7] *https://www.wsj.com/articles/sarah-bloom-raskin-bidens-pick-for-top-fed-post-withdraws-11647372174?mod=markets_lead_pos2*
[8] *https://www.ft.com/content/8d6d1394-c10a-45e2-bcc4-374439fd6760*

that are "favorable to the market," take targeted actions to support the Chinese property sector, and indicated that China was working with U.S. officials to alleviate uncertainty related to the potential delisting of Chinese firms that are traded on U.S. exchanges. The overall impact was to signal that Beijing was ready to support broad swathes of the economy in the face of Covid-induced economic weakness and ongoing geopolitical uncertainty—the result of the speech was a broad-based rally in Chinese equities with the Hang Seng Tech Index surging by more than 22%. The developments are likely to provide support for Chinese equities (MSCI China Index) which had been in the middle of a bear market that began in February 2021 with declines of -55% through last week (15-March-2022) before the announcement by the Chinese government.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 17-March-2022, Bloomberg U.S. Treasury Total Return Index, Drawdowns are defined here as the maximum decline from most recent peak

At some point we'll reverse course on the negative sentiment on bond markets, particularly U.S. treasury markets. For now, they continue to face the dueling headwinds of low beginning yields along with high durations (interest rate sensitivity) — the combination of which has led to the U.S. Treasury market facing its steepest drawdowns ever.

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