OBSERVATIONS

- In what will rank as the largest or second largest crypto hack ever, the Ronin Network announced a hack which involved the loss of 173,600 Ether and $25.5 million of USDC stablecoin, totaling over $600 million.[1]
- National home prices accelerated once again in January. The S&P CoreLogic Case-Shiller National Home Price Index registered gains of +19.2% as compared to the same time one year ago. The year-over-year change marked the fourth highest reading on record over the 35 years of data available. This is of course before mortgage rates really got moving as they have now risen from 3.3% on Jan 1 to 4.9% as of Apr 1.[1,2]
- On an inflation adjusted basis, gas prices experienced the largest month-over-month increase in March — rising $0.69 a gallon — since the U.S. Energy Information's records began in the mid-1970s. At $4.22 a gallon, that rivals inflation adjusted gas prices that the U.S. experienced in the early 1980s, though drivers need 25% less gas to drive the same distance today given the vastly improved fuel efficiency of motor vehicles.[3]
- Oil fell -6.5% during last week as the Biden administration announced releasing a million barrels of oil per day over a six-month period from the U.S. Strategic Petroleum Reserves (SPR). At an estimated total of 180 million barrels, the release would be the largest drawdown of the SPR in its 45-year history.[1]
- The unemployment rate fell to 3.6% in March after the U.S. economy added 431k jobs (a bit less than expectations for 490k). Job growth averaged 562k per month in Q1 of 2022, nearly the same average monthly gains throughout 2021.[4]
- Inflation steady: inflation as measured by the Fed's favored Core Personal Consumption Expenditures (PCE), was up +0.4% month-over-month (MoM) for March and is now up +5.4% from this time last year (YoY). The monthly change was in line with expectations, while the YoY figure was lower than expectations of +5.5%.[1]

EXPECTATIONS

- Q1 earnings season will get started soon, just three S&P 500 companies are set to report results this week. Expectations for the S&P 500 are for revenue and earnings growth of +10.7% and 4.7% as compared to the same quarter one year ago, respectively.[5]

ONE MORE THOUGHT[6]: *Yield curve inversion … Yes? No? Maybe? So what?*

Arguments are circulating in financial media that the inverted yield curve or rapidly approaching inversion of the yield curve is a signal of imminent recession. The 'professionals' cite the yield curve as the difference between the 10-Yr treasury and 2-Yr treasury yield, others will define it as the difference between the 5-Yr treasury yield and 30-Yr treasury yield. Yet there is a body of work *(if interested, the New York Fed has wonderful research on the topic here)* that focuses on the yield curve defined as the difference between the 10-Yr treasury yield and the 3-Mo Treasury yield (also our definition given the litany of research, and here forward will be the reference for "yield curve"). So why the reliance on one measure vs another? Candidly, recession calls are a great way to increase ratings, attract website views, unnecessarily trade the portfolio, and garner attention for the media and experts at large. We'd rather focus our energy on empirically motivated research for our clients. In that spirit, the yield curve as

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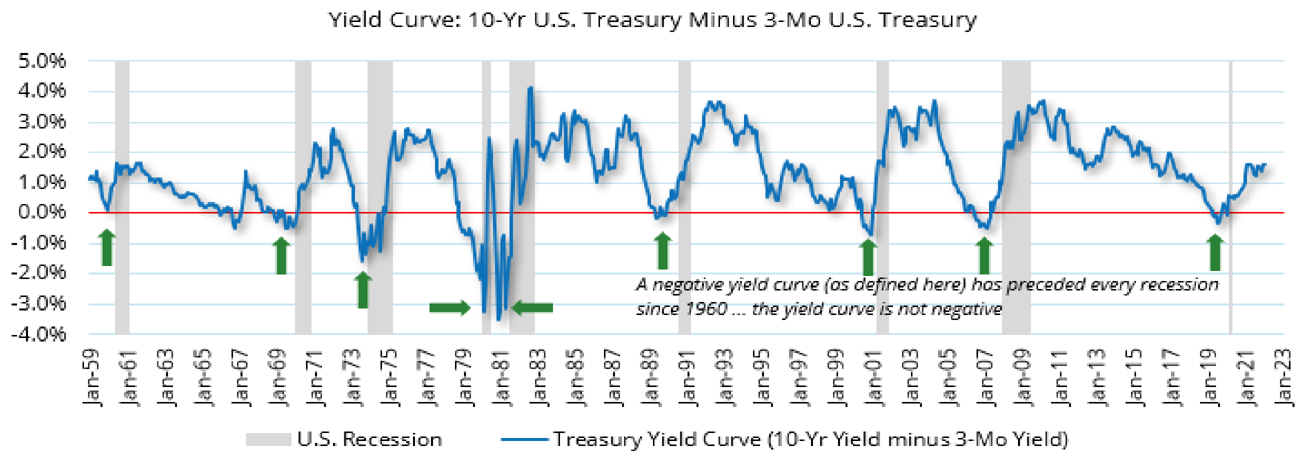
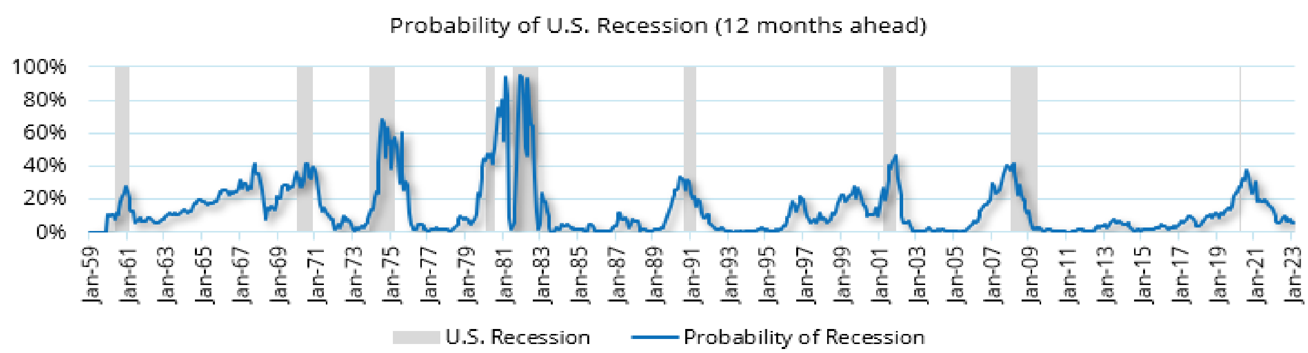
[1] *Bloomberg LP*
[2] *https://www.spglobal.com/spdji/en/documents/indexnews/announcements/20220329-1451063/1451063_cshomeprice-release-0329.pdf*
[3] *https://www.wsj.com/articles/gasoline-prices-shoot-up-at-fastest-rate-on-record-11647957303*
[4] *https://www.bls.gov/news.release/empsit.nr0.htm*
[5] *Factset Earnings Insight, as of 1-April-2022*
[6] *Federal Reserve Bank of New York, Bloomberg LP, Clearstead*

we define it is not inverted, nor close to inversion, and similarly the probability of a recession in the next 12 months using the yield curve as a predictive model is less than 10% (as noted in last week's RC, odds are rising though still low). There are technical factors affecting bond markets across virtually every maturity, which make drawing simple conclusions problematic and can easily lead to mis-aligning one's portfolio with one's long-term objectives. The yield curve can be thought of as conveying market expectations about future real economic growth so as of right now what seems to be most evidenced—regardless of your choice for any recessionary yield curve signal—is the notion that economic growth rates are likely to be lower going forward — not a surprise by any stretch. More to come on the yield curve as the data evolves.

CHART(S) OF THE WEEK





Source: Clearstead, Federal Reserve Bank of New York (FRBNY), as of 30-March-2022, FRBNY probability of recession predicted by Treasury Spread model

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