

OBSERVATIONS

- West Texas Intermediate Oil reached \$95/bbl last week, down nearly -30% from the year's highs of \$130/bbl in early March. Meanwhile, average gasoline prices have now fallen for 28 straight days to \$4.65 per gallon with just nine states averaging above \$5 per gallon — that compares to nearly 20 states just a month ago.¹
- Recent market weakness weighs on Initial Public Offerings (IPO) with sluggish trends as compared to the record-breaking volumes witnessed in 2021 — global IPO volumes declined over 50% in Q2 from the same quarter a year ago.²
- Office vacancy rates ticked up in Q2-2022 to 18.4% just below the pandemic high of 18.5% set in Q2-2021— these are the highest office vacancy rates since 1992 in the aftermath of the savings and loans crisis.³
- Eurozone inflation hit an all time high in June reaching 8.6% year-over-year (YoY) on the back of soaring food and energy prices.¹
- Small business optimism index continued to decline hitting 89.5—a level not seen since the aftermath of the Great Financial Crisis—while the number of small business owners expecting better business conditions over the next six-months fell to an all-time low in the near 50-year history of the survey.⁴
- As headline inflation continues to surge (see One More Thought) US producer prices increased 11.3% YoY, which was an increase from May's PPI figure of a 10.9% increase.⁵
- China's Central Bank held a press conference last week and highlighted the bank's efforts to support infrastructure projects in H2-2022 to help support employment stability and buttress the economy in the face of Covid-induced shutdowns that hurt the economy—GDP grew by only 0.04% in Q2.⁶
- Retail sales increased 1.0% in June from May and 8.4% from June-2021, which was above expectations, while retail sales numbers for April and May were revised upwards.¹

EXPECTATIONS

- The Fed's Beige Book noted that the increase in interest rates was beginning to have a material effect on the housing market. The Fed highlighted that "housing demand weakened noticeably as growing concerns about affordability contributed to non-seasonal declines in sales, resulting in a slight increase in inventory and more moderate price appreciation."⁷
- Q2 earnings season got off to a mixed start with JP Morgan and Morgan Stanley missing earnings estimates and increasing allowances for bad loans, while Citi Bank beat estimates, but each bank noted tougher times ahead.⁸

ONE MORE THOUGHT:⁹ *Headline inflation data remains 'hot', rises more than expected*

Headline inflation (CPI) rose 1.3% in June and core inflation (CPI ex Food and Energy) rose 0.7% in the month. The former is the highest month-on-month increase since September 2005, while the latter which excludes food and

¹ Bloomberg LP, AAA, as of July 13, 2022

² <https://www.cnn.com/2022/07/13/ipo-market-stays-dormant-as-justworks-and-fresh-market-withdraw-their-filings.html>

³ <https://cre.moodyanalytics.com/insights/cre-trends/q2-2022-preliminary-trend-announcement/>

⁴ <https://www.nfib.com/surveys/small-business-economic-trends/>

⁵ <https://www.bls.gov/news.release/ppi.nr0.htm>

⁶ Goldman Sachs Economic Research "China: PBOC press conference on monetary policy in 2H and State Council meeting on consumption" 13-Jul-2022

⁷ <https://www.federalreserve.gov/monetarypolicy/beigebook202207.htm>

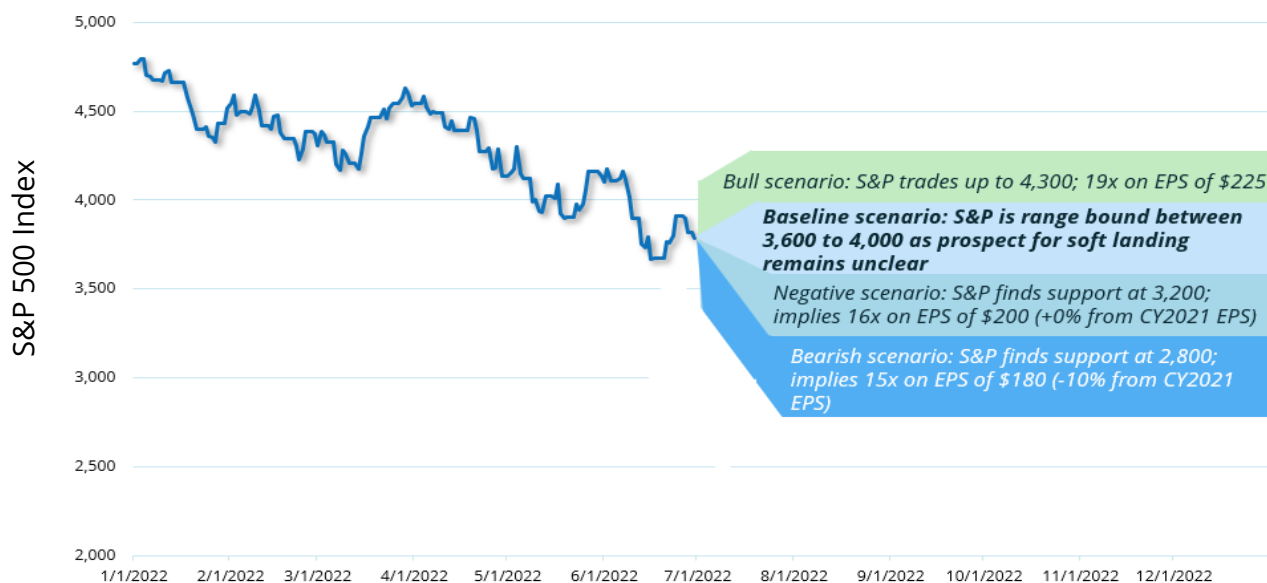
⁸ https://www.wsj.com/articles/global-stocks-markets-dow-update-07-14-2022-11657784130?mod=hp_lead_pos1

⁹ <https://www.bls.gov/news.release/cpi.nr0.htm>

energy is a 12-month high. While all categories rose, inflation in shelter, used and new cars, and medical care were the more notable contributors for the month. Meanwhile, on a year-over-year basis headline CPI is now up 9.1% while core CPI is up 5.9%. Once again, the food and energy categories weigh heavily on overall inflation as the headline figure of 9.1% sits at multi decade highs, while excluding food and energy core CPI (as measured on a year-over-year basis) is lower than the 6.5% peak observed in March. Directionally, the trend in core CPI continues to favor a moderating inflation backdrop, yet the influences of volatile food and energy prices are likely to continue to keep the differences between the headline inflation statistic verses that which excludes those categories, quite high for the foreseeable future.

CHART OF THE WEEK

What's Next for Stocks?



Source: Bloomberg LP, Clearstead, S&P 500 daily data as of June 30, 2022

What's next for stocks? At least for the remainder of the year, our base case argues for a range bound S&P 500 that will continue to be highlighted by significant volatility. As earnings season gets underway, guidance will be critical and we assume that downward earnings revisions are likely to begin dragging down overall 2022 earnings estimates. This contrasts with the past six months where earnings expectations for the market at large (S&P 500) have remained unchanged — S&P 500 currently expected to grow earnings +10.0% as compared to 2021.

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