RESEARCH CORNER

September 26, 2022

OBSERVATIONS

- The S&P 500, after a deluge of central bank activity (see One More Thought), approached the June lows and reentered a 'bear market' after declining -4.7% last week.[1]
- Oil (West Texas Intermediate – WTI), fell below $80/bbl for the first time since January this year as a strong dollar and global growth concerns have weighed on most commodities.[1]
- As the yield on the 2-Yr U.S. Treasury note passes through 4%, just 15% of S&P 500 companies have dividend yields greater than 2-Yr note. Meanwhile, just 20% of companies have dividend yields greater than the yield on the 10-Yr U.S. Treasury bond—the lowest since 2006.[2]
- Homebuilder sentiment declined for a ninth straight month, mostly from expectations from lower sales in the next six months and lower buyer traffic, the index stands at the lowest level since 2014. A quarter of home builders reported lowering prices, up from 19% last month.[3]
- Mortgage activity increased last week, week-over-week (WoW), for the first time in six weeks. Refinance applications rose 10% WoW while home purchase applications rose 1% on the week, they are down 83% and 30% from last year, respectively.[4]
- The British pound fell to a 37-year low last week after the government's announcement of a package that includes the largest tax cuts in fifty years and subsidies for households dealing with surging energy prices.[5]
- Germany was forced to nationalize its largest natural gas importer, Uniper, as the company faced heavy losses as Russia's natural gas cuts hamper the European region's energy companies. The country will take a 99% stake in Uniper and will inject nearly $8 billion to shore up the company's balance sheet.[6]

EXPECTATIONS

- The 10-yr. U.S. Treasury yield broke out of its 2.5% to 3.5% trading range and reached a fresh high for the year after reaching 3.83% last week, the highest level since early 2011. Choppiness in bond markets is likely to continue as recent declines in stocks spark 'flight to safety' trades pushing yields lower, while inflation and Fed policy push yields higher.[1]
- Vladimir Putin responded to the recent successes of the Ukrainian counteroffensives by announcing a partial mobilization of reservists during a nationally televised speech last week. The partial mobilization is intended to require all males ages 28 to 45—at the officer level up to age 65 or for foreign enlistees—with previous military experience to re-enlist in the military and deploy to the front lines in Ukraine. The effort is expected to raise an additional 300,000 Russian troops, but it could take months for these troops to be actually assembled, re-trained, and deployed.[7]

ONE MORE THOUGHT: *Busy Central Bank Week*[8]

The last couple of weeks have seen a flurry of global central bank activity making for a volatile week in capital markets. With last week out of the way, so to speak, markets will begin to turn their attention to Q3 earnings— with

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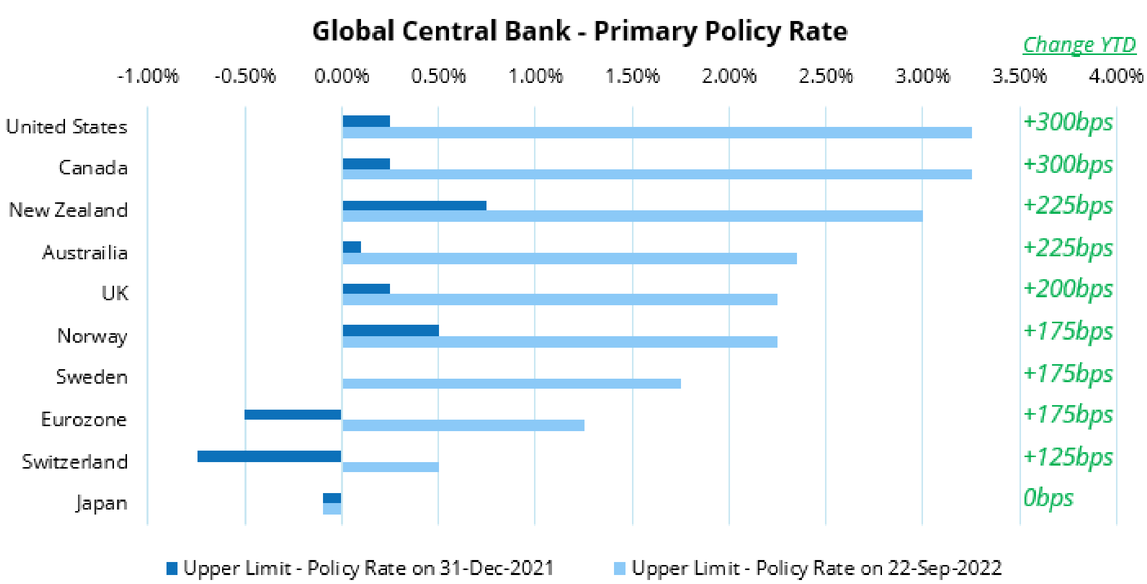
[1] *Bloomberg LP*
[2] *https://www.wsj.com/articles/rising-bond-yields-change-the-calculus-for-stocks-11663516082?mod=hp_lead_pos2*
[3] *CNBC.com, NAHB/Wells Fargo Housing Market Index*
[4] *https://www.cnbc.com/2022/09/21/mortgage-demand-rises-for-the-first-time-in-six-weeks.html*
[5] *https://www.wsj.com/articles/u-k-announces-package-of-sweeping-tax-cuts-11663926079?mod=markets_lead_pos2*
[6] *https://www.wsj.com/articles/germany-to-nationalize-ailing-uniper-after-russian-gas-cuts-11663747126?mod=markets_lead_pos2*
[7] *https://www.understandingwar.org/backgrounder/russian-offensive-campaign-assessment-september-21*
[8] *CNBC.com, WSJ.com, Bloomberg LP, Reuters*

a particular focus on corporate profit guidance— as that process will commence in a couple of weeks' time. Meanwhile, this recent economic chapter of NIRP (Negative Interest Rate Policy) and ZIRP (Zero Interest Rate Policy) can finally be closed, this is a good thing in our view. After over a decade of monetary policy fantasy land, markets appear to be in the process of removing the distortions created by the NIRP and ZIRP policies around the globe. Unfortunately for investors the process likely means high volatility and likely more investing discomfort. To recap; The Swiss National Bank raised its main policy rate 75bps to 0.5%, ending its era of NIRP. Inflation in Switzerland, while just 3.5%, is a multi-decade high. The Bank of Japan stands as the last major central bank with NIRP as it kept its policy rate unchanged last week at -0.10% and was forced to intervene in FX markets as the Yen reached nearly 25-year lows. The Bank of England raised rates for a seventh consecutive time, this time by 50bps to 1.75%, the highest since 2008. Sweden's Riksbank (the country's central bank) raised its policy rate by 100bps, the largest such move since 1993, as it deals with similar inflation pressures which stand at thirty-year highs. Here in North America, the Bank of Canada raised its benchmark rate by 75bps to 3.25% earlier in the month. Lastly and most importantly, the U.S. Federal Reserve Bank lifted its main policy rate by 75bps to 3.25% (upper bound), markets are now expecting the Fed Funds rate to reach 4.25% by year end as the Fed maintained its hawkish stance on getting inflation back to its targeted 2.0%. The Fed's aggression (Chart of the Week) continues to weigh on overseas economies and capital markets, particularly the most vulnerable emerging market economies.

CHART OF THE WEEK



Source: Clearstead, Bloomberg 9-Sep-2022


Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead