OBSERVATIONS

- The S&P 500 closed Q3 down -4.9%, the third consecutive negative quarter for the index. That stretch is the longest since the Great Financial Crisis (2008-2009). Bond markets (Bloomberg Aggregate Index) also posted its third consecutive quarterly loss after declining -4.8, the longest losing streak for the index since 1979.[1]
- Durable goods orders showed a modest decline of -0.2% in August from July, better than the median economist estimate of -0.4%. The decline marked the second consecutive monthly decrease, though excluding transportation, new orders were up +0.2%.[1]
- Lumber prices have reclaimed their pre pandemic prices after falling nearly 75% from their March 2021 peaks. The two-year round trip saw lumber futures prices go from $400 per 1,000 board feet to over $1,600 and back to $410 last Monday.[2]
- New home sales surged in August by 28.8% month-over-month (MoM) to a seasonally adjusted annual rate of 685k new houses. This is the second highest MoM reading on record but may be inflated as cancellations—housing sales that do not make it to closing—are currently spiking as well. Sales activity was in part buoyed by lower prices, the median new home sales price declined nearly -5% MoM. Meanwhile, new home sales are essentially unchanged (-0.1%) on a year-over-year basis.[3]
- Putin annexed broad parts of the Ukrainian territory, bringing Donetsk, Luhansk, Zaporizhzhia, and Kherson into the Russian Federation and essentially giving Russia a land bridge into Crimea—a move that assuredly intensifies the now seven-month long invasion by Russia.[1]

EXPECTATIONS

- Over fears of potential collateral calls given the significant decline in UK bond markets, the Bank of England (BOE) was forced to calm UK bond markets. The BOE will temporarily suspend its previous plans to begin selling off its government bond holdings and instead will provisionally buy long dated government bonds to calm the country's bond markets. Monetary policy and financial stability are inextricably linked, and we would expect to see more turmoil across certain government bond and currency markets as the two concepts intersect.[4]
- Eurozone headline inflation in September reached +10.0% up from August's +9.1% reading, both on a year-over-year (YoY) basis. Excluding food and energy, core inflation was nearly half the headline figure for the region with a reading of +4.8% YoY. The European Central Bank is expected to hike its policy interest rate by 75bps at its next meeting in late October.[5]

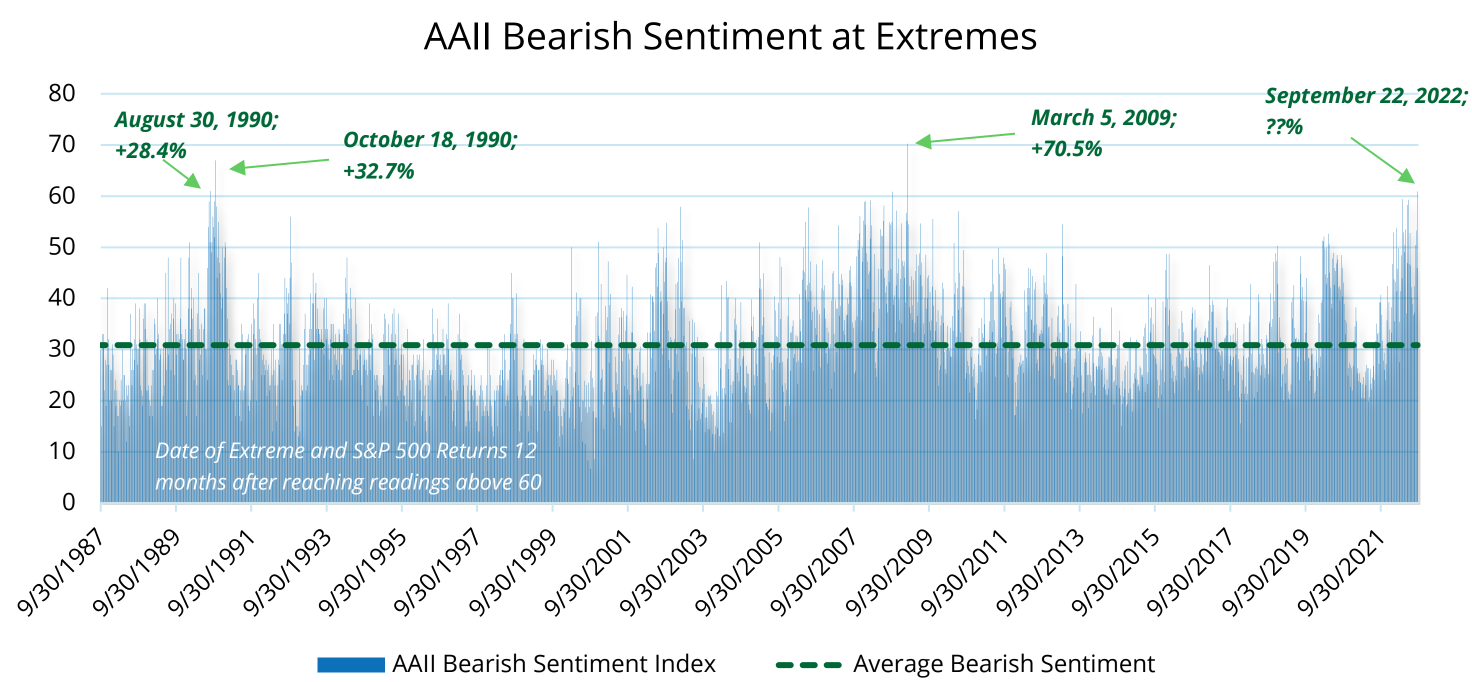
ONE MORE THOUGHT: *Is the bottom in for stocks? Mixed signals and yet another extreme.*

After the S&P 500 retested this year's lows last week—ultimately making a new low for the year and reentering a bear market, questions remain. Stock markets have yet to see a 'capitulation' of the variety that we would consider to be associated with extreme declines. The VIX index (aka Fear index) currently sits at 31.5, about 50% above its long-term average of 19.5. While the VIX has remained elevated throughout this year, it has yet to spike to levels associated with significant fear (i.e., an index reading north of 40). *Bond markets and Foreign Exchange markets, on the other hand, are experiencing significantly higher volatility as they have been more driven by rising interest rates.* For stock

[1] *Bloomberg LP*
[2] *https://www.wsj.com/articles/lumber-prices-fall-back-to-around-their-pre-covid-levels-11664239652?mod=hp_lead_pos5*
[3] *Oxford Economics, Marketwatch.com*
[4] *Bloomberg LP, WSJ, CNBC*
[5] *Eurostat, Bloomberg LP*

markets, technical measures continue to be mixed, though we would suggest that several factors (such as investor sentiment and market technicals) are more heavily skewed to the negative. So much so now that we would expect to see some reprieve, be that in the form of sideways markets or a relief rally. One such measure that has reached eye catching territory is the AAII (American Association of Individual Investors) sentiment survey (Chart of the Week). The survey measures whether individual investors are either bearish, bullish, or neutral on the stock market for the next six months. The AAII Bearish Sentiment survey entered rarified territory in recent days after reaching a reading of above 60 (meaning 60% of survey respondents are bearish on the market). The milestone has only been seen on three other occasions, all of which proved to be closely associated with a short-term market bottom for those respective cycles. For now, we are still in the camp that the S&P 500 remains rangebound for the remainder of 2022. That said, stock market volatility will remain high, and the likelihood of a monetary policy misstep is increasing given the wild swings witnessed in global currency and bond markets.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of September 27, 2022, AAII Bearish Sentiment Index, Past performance is not an indicator of future results.

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