OBSERVATIONS

- Stock market volatility for the record books, the S&P 500 has recorded more days this year witnessing moves of 1% or more (in either direction) since 2008.[1]
- With robust travel and a return to profitability, Southwest Airlines reinstated its quarterly dividend after suspending it during the pandemic. As part of federal aid received, airlines were prohibited from share buybacks and dividend payments through fall of 2022.[2]
- US 10-Yr treasury yields continued to decline last week, dropping by over 70 bps to nearly 3.55% after reaching multi- year highs of nearly 4.25% in mid-October.[1]
- Taiwan Semiconductor announced plans for a second semiconductor plant in Arizona, bringing the total announced investment in US based production to $40 billion from the prior $12 billion.[1]
- Chinese exports contracted by -8.7% year-over-year (YoY) in November—well below expectations—and down from a -0.7% YoY decline in October. The fall in exports broadened from October's figure across a wider scope of products and destination countries underscoring the general slowdown in global growth.[3]
- Meanwhile, global supply chain pressures continue to moderate, as measured by the New York Federal Reserve Bank's Global Supply Chain Pressure Index. The index is now about 1 standard deviation away from long-term trends, after peaking at over 4 standard deviations in December of 2021. Meanwhile, ocean freight rates from China to US west coast ports have dropped by 90% for that same period.[4]
- US Producer Prices (PPI) fell in November from October, but not as much as consensus expectations. PPI eased to 7.4% YoY in November from October's 8.1% YoY figure—markets were anticipating a drop to 7.2%. Core PPI fell by less, but still eased to 6.2% YoY down from October's 6.8% figure.[1]

EXPECTATIONS

- The Energy Information Administration (EIA) raised its forecast for US oil production to a new record of 12.34 million barrels per day, besting the previous record in 2019 of 12.315 million barrels per day.[1]
- Last Wednesday, China dropped many quarantine and testing requirements amidst public backlash. The government also reduced the power of local officials, who until this point had the ability to close off large parts of municipalities.[5]
- China's new Politburo held a series of key policy meetings last week and released a formal statement that was largely seen as pro-growth and pledged to further improve Covid control measures (see previous bullet). The statement also noted several measures aimed at "promoting broad improvement of economic growth" and to "expand domestic demand" which were not mentioned explicitly in the July meeting statement.[6]

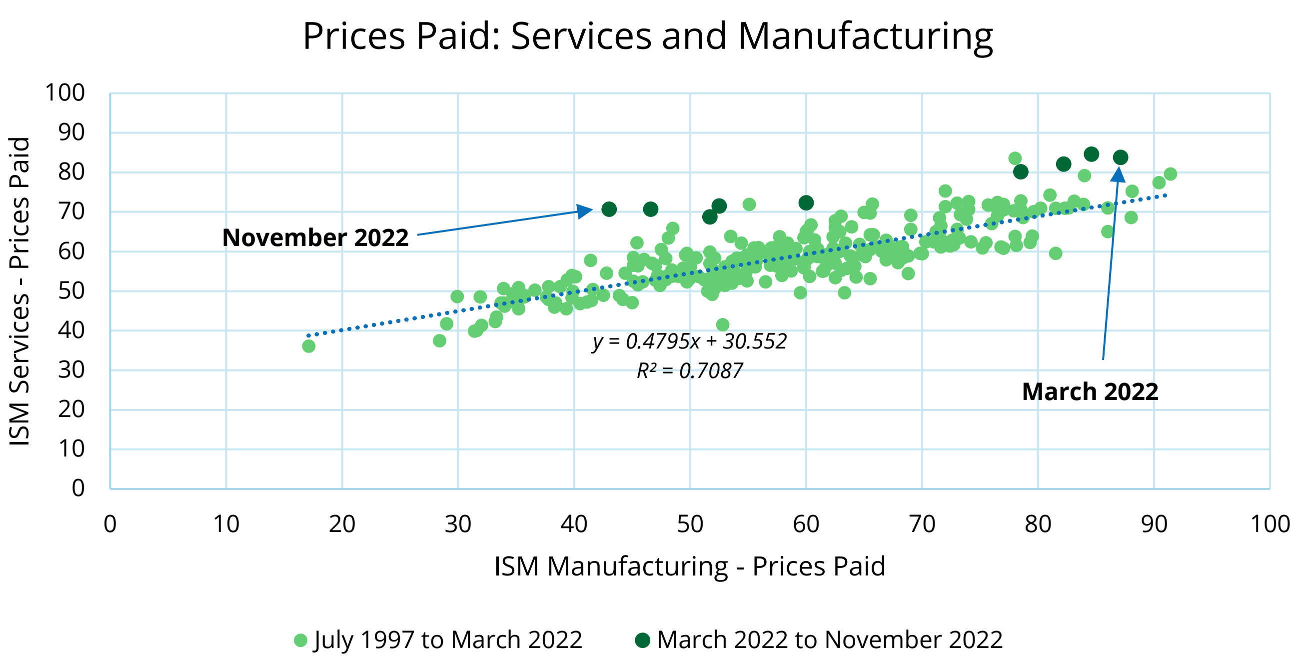
ONE MORE THOUGHT: *Prices paid surveys point to lower inflation rates on the horizon*

The following is narrow in perspective but worthwhile exploring, nonetheless. One sign that inflation is easing is embedded within the Institute for Supple Management's (ISM) monthly PMI survey data. The ISM conducts surveys on the state of the manufacturing and services industries, in separate reports, and incorporates data from

[1] *Bloomberg LP*
[2] *https://www.cnbc.com/2022/12/07/southwest-reinstates-dividend-after-three-years-as-travel-rebounds.html*
[3] *Goldman Sachs "China: Exports Contracted more than Expected in November" 7-Dec-2022*
[4] *https://www.newyorkfed.org/research/policy/gscpi#/interactive*
[5] *https://www.wsj.com/articles/china-scraps-most-testing-quarantine-requirements-in-covid-19-policy-pivot-11670398522?mod=hp_lead_pos1*
[6] *Goldman Sachs "China: December Politburo Meeting Set a Pro-Growth Tone for 2023 Policy Stance" 7-Dec-2022*

purchasing and supply executives around the country. The Manufacturing PMI is based on New Orders, Production, Employment, Supplier Deliveries, and Inventories while the Services PMI is a composite of Business Activity, New Orders, Employment, and Supplier Deliveries. Both indexes have 'prices paid' sub-indexes which tend to be very correlated with one another and both offer a glimpse into prospective inflation data by a lead time of three to four months. Since Personal Consumption Expenditures (PCE) peaked in February of 2022, we have seen the prices paid components of both manufacturing and services decline (Chart of the Week). In March of 2022, prices paid in both manufacturing and services were near record highs and over each successive month; since then we have seen reversals in those trends downward, with prices paid in manufacturing experiencing more significant declines than services. As the economy continues to normalize back to a services-oriented economy from the goods related boom that occurred during and after Covid, we have seen confirmation of that normalization represented in the prices paid parts of manufacturing, while services related prices paid remain higher, though lower than March 2022. Both are significantly 'off trend' given the underlying trends witnessed in the economy and we would expect that over time that data to slowly migrate back to trend. All else equal, the declines in prices paid portend a softening of inflation data likely in the back half of Q1 2023 but the stubbornly high services related prices paid data pushes against a pivot narrative that markets are currently anchored on for Fed policy. Rates are likely to stay higher for longer, as Fed officials continue to note and we are likely to learn more at this weeks Fed meeting.

CHART OF THE WEEK



Source: Clearstead, Bloomberg as of 12/6/2022

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