

OBSERVATIONS

- ISM Manufacturing index came in at 48.4, modestly below 50.0 – indicating contraction. Meanwhile the prices paid index dropped to 39.4, the ninth straight monthly decline and the lowest since April 2020 and the longest stretch of declines for prices paid since 1974-1975.¹
- Negative yielding debt, a thing of the past? After peaking at nearly \$18 trillion in December 2020, the value of global debt outstanding with a negative yield has fallen to zero, not seen since 2014.¹
- Home prices continue to increase, albeit at a slower pace. The Case-Shiller Core Logic Housing Price index showed that home prices increased by 8.6% year-over-year (YoY) in November—breaking a 21-month streak of home prices growing YoY by double digits.²
- Office vacancy rates climbed for the fourth straight quarter and reached 18.7%. The report noted that corporate margin pressure and employee demands for more flexible working arrangements have caused a string of office lease downsizings over the past year.³
- Job openings per the Job Openings and Labor Turnover Survey (JOLTS) remain robust at 10.46 million vacancies and continues to keep labor market conditions tight (See Chart of Week).¹
- The US jobs report showed that the economy created 223k jobs in December.¹ The unemployment rate fell to 3.5% and the labor force participation rate increased, while average hourly wages decreased to 4.6% YoY. In general, thus far, there is little sign that the US labor market is weakening in the face of Fed rate hikes.

EXPECTATIONS

- Construction spending for November was reported at a seasonally adjusted annualized rate of \$1,807.5 billion, 0.2% above the revised October estimate.⁴ The positive construction report was largely a result of strong growth in non-residential and public construction, whereas residential building fell in November as the US housing market continues to weaken in the face of higher mortgage rates and rising home prices.
- China is amidst a widespread surge of Covid cases as it relaxes aspects of its zero-Covid policy and international agencies are projecting that nearly a million deaths may occur during this spike of cases. Officially, China—which narrowed the definition of a Covid-19 death—has reported only 5,258 Covid deaths nationwide, but Western media are reporting that crematoria in numerous cities have days-long backlog of bodies to process.⁵

ONE MORE THOUGHT: House Republicans struggle to elect a Speaker of the House

It took more votes than any time since 1860, but the House of Representatives finally elected a Speaker of the House. Kevin McCarthy eventually got most of the 20-hold out votes he needed, but he had to substantially weaken his role in order to win over some of the most conservative members of his own party. Some of their demands restore earlier House rule precedents or improve the transparency of bill creation. But others may lead to more problems. In particular, he has agreed to allow any House Republican the right to demand a vote of no confidence in his House Speakership—previously only Republican House leadership could demand such a vote. Given, that McCarthy can only afford to lose four Republican votes to maintain his Speakership, this change means that any one disgruntled Republican House member can effectively require a new vote and paralyze the House of

¹ Bloomberg LP

² <https://www.corelogic.com/tag/home-price-index/>

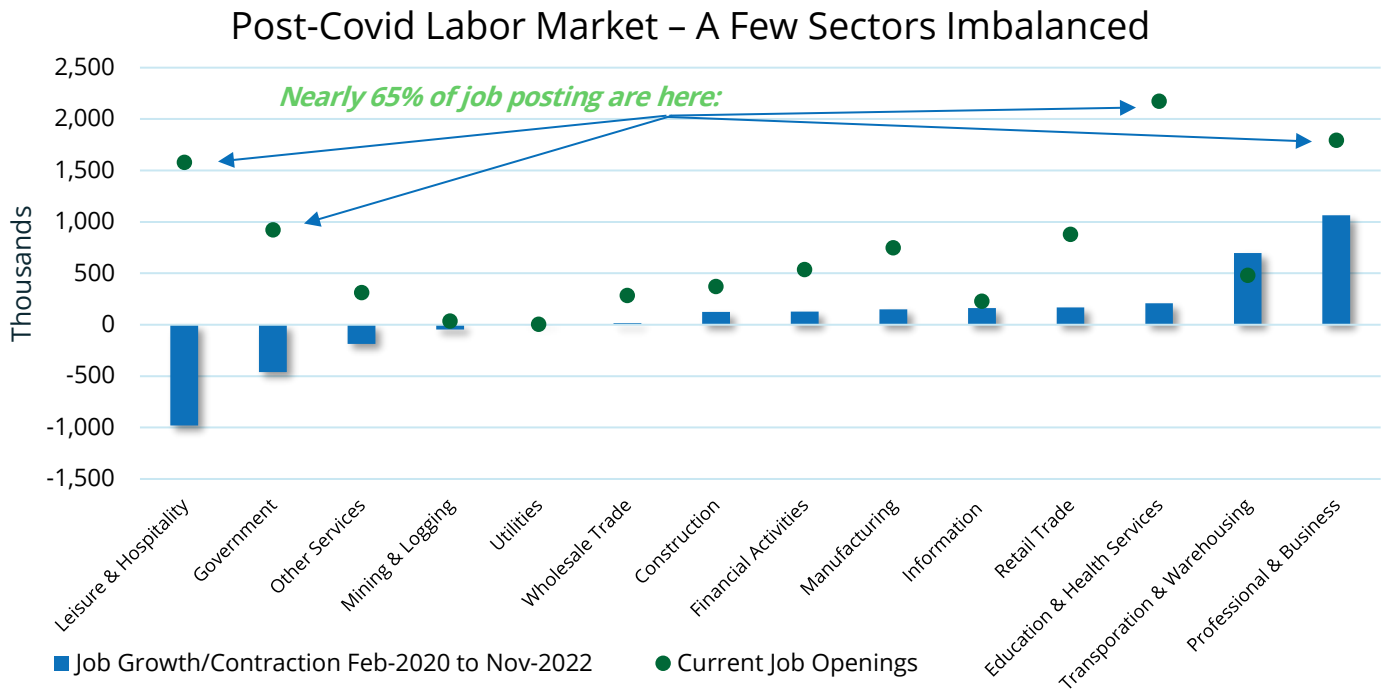
³ Moodys Analytics CRE Q4 report, <https://cre.moodysanalytics.com/insights/cre-trends/q4-2022-preliminary-trend-announcement/>

⁴ <https://www.census.gov/construction/c30/pdf/release.pdf>

⁵ <https://www.bloomberg.com/news/articles/2023-01-03/bodies-pile-up-in-china-as-covid-surge-overwhelms-crematoriums>

Representatives. Should he lose the subsequent vote, House Republicans will be returned to square one—where they are the majority party but cannot agree on Speaker. This bodes ill for upcoming controversial votes such as raising the debt ceiling—likely needed to be voted on by mid-summer—or next fiscal year’s budget, which is likely to take place in the Fall. Almost all Republican holdouts have signaled their refusal to raise the debt limit or fiscal increase spending in any substantial way. In each of these votes, and perhaps countless others, Republican centrists will be faced with the dilemma of placating the most conservative elements of their party or breaking with precedent and seeking a majority of House comprised of centrist Republicans and Democrats.

CHART OF THE WEEK



Source: Clearstead, BLS, 12/30/2022

The Fed’s job has been complicated by the continued strength in the labor market, where more than 10.46 million jobs remain open, as of the most recent JOLTS survey. Even when assuming a significant number of these ‘available’ jobs are prone to overstatement (e.g., Education and Health Services, Government) the ratio of open jobs to available labor indicates the jobs market is strong.

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