

OBSERVATIONS

- About 11% of the S&P 500 has reported earnings with the number and magnitude of positive earnings surprises falling below both the 5 and 10-year averages. This week will see 96 S&P 500 companies report Q4-22 results.¹
- Fun (nostalgic) fact for the week: After being wiped out by CDs, vinyl albums make a comeback as UK consumers spent more on vinyl albums than for their digital equivalent CDs in 2022, a first since 1987.²
- China's economy grew at 3.0% year-over-year (YoY) in 2022, as its draconian response to Covid stalled many aspects of the country's growth engine. Other than a 2.2% growth rate in 2020, this marked as the slowest growth rate since 1976.³
- Producer prices fell in December and ended 2022 up 6.2% from the beginning of the year. Producer prices for goods fell by -1.6% in December from November, but December producer prices for services actually increased by +0.1% from November. Core-PPI (which excludes food, energy, and trade services) also edged up 0.1% in December from the month before and ended 2022 +4.6% from the start of the year.⁴
- Retail sales decreased in December by -1.1% from November. Excluding gasoline—which can see volatile price movements month to month—monthly retail sales fell by only -0.8%.⁴ Initial retail spending estimates were also revised lower for both this past November and October, and the December retail spending came in lower than expectations indicating that consumers pared spending this past Christmas season.
- Industrial production decreased in December to a +1.7% annualized rate for Q4-2022. Capacity utilization also declined to 78.8%. However, for the full year (2022) mining (+5.8%) and utilities (+9.7%) saw strong gains, while manufacturing—in part hamstrung by supply-chain shortages in the auto sector—declined for the year by -0.5%.⁴
- Initial unemployment claims fell to 190,000 a decrease of 15,000 from the week before, signaling that despite headline announcements of layoff notices in the tech and finance sectors, the job market shows little signs of weakening overall.⁴

EXPECTATIONS

- Housing starts and permits both fell in December from November and ended the year well below 2021 levels. New starts fell to 1.382 million (annualized rate) in December down 21.8% from the year before. New home permits also fell in December and ended the year down 29.9% from the number of new home permits filed in Dec-2021.¹ However, homebuilder sentiment edged up in January to 35 after bottoming last month at 31—a low last seen in the depths of the May-2020—as mortgage rates softened to begin the year.¹ Existing home sales also fell by a third in 2022 compared to 2021. Overall, the housing sector has seen the sharpest impact of the Fed's actions and most analysts expect housing to be a drag on growth in 2023.

ONE MORE THOUGHT: House Republicans and the White House begin the fight over the Federal debt limit⁵

Last week the US government bumped up against the federal debt limit and US Treasury Secretary sent a letter to Congressional leaders to act promptly to raise the debt ceiling to “protect the full faith and credit of United States.”

¹ Factset Earnings Insight 1/20/2023

² <https://www.theguardian.com/music/2022/dec/27/taylor-swift-propels-uk-vinyl-sales-past-cds-for-first-time-in-35-years>

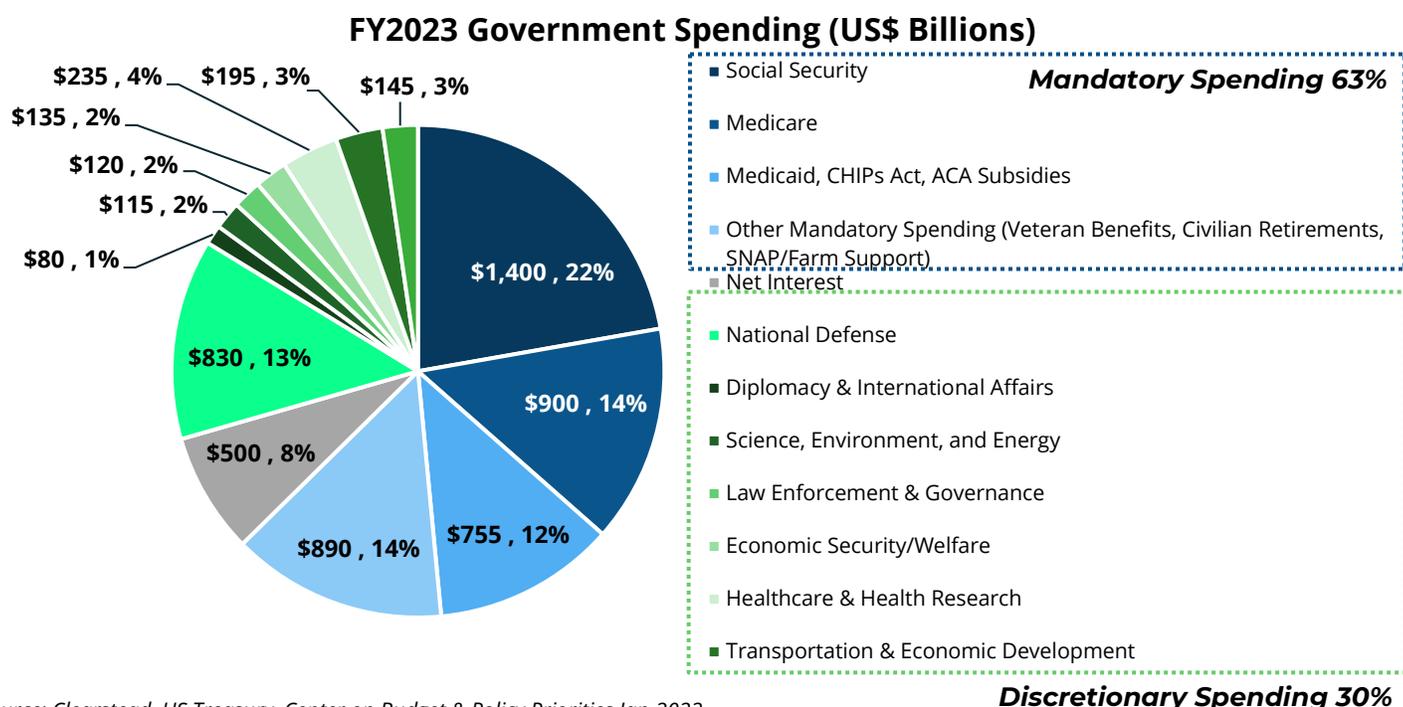
³ https://www.wsj.com/articles/chinas-economic-growth-fell-to-near-historic-lows-as-covid-took-a-bite-11673921199?mod=economy_lead_story

⁴ Bloomberg LP 1/20/2023

⁵ https://www.wsj.com/articles/treasury-to-begin-extraordinary-measures-to-pay-bills-amid-debt-ceiling-debate-11674091179?mod=hp_lead_pos1

Since 1997 the statutory debt limit has been raised 22 times. The US Treasury has begun to make a series of special measures to keep paying the governments bills that will suspend some investments or funding to specialized accounts and programs in order to keep the government’s cash flows in balance, but these measures are expected to last only until early summer at which point new debt issuance will be needed or the government will have to prioritize payments and essentially default on some obligations. House Republicans have vowed not to raise the debt limit without an agreement from the White House on spending cuts in discretionary areas. The White House, thus far, has not suggested a willingness to renegotiate it spending plans—largely dictated by the last Congress. With net interest expected to account for 8% of spending, defense dollars unlikely to be touched, and mandatory programs (See Chart of the Day) accounting for 63% of all spending, only about 15% of total spending (≈\$1.0 trillion in discretionary spending) is left to negotiate. Our baseline view—at this point in time—is that a compromise can be struck, and any potential default scenario will be avoided, but the initial posturing by leaders of both parties all but assures that uncertainty around an 11th hour deal is likely to rise throughout this Spring and Summer.

CHART OF THE WEEK



Source: Clearstead, US Treasury, Center on Budget & Policy Priorities Jan-2023

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