OBSERVATIONS

- Markets traded higher last week, and the S&P 500 set another record high last Thursday. The S&P 500 gained +2.3% while small caps (Russell 2000) gained +1.6% as the Fed (see One More Thought) kept rates steady and the yield on a 10-year Treasury moved down -11 basis points to end the week at 4.20%.[1]
- Homebuilder sentiment turns positive. The NAHB/Wells Fargo Housing Market Index rose three points to 51, which stands as the highest level since July 2022 (*readings above 50 indicate net positive sentiment*). The index's three components, current sales, six-month expectations, and buyer traffic, all rose.[2]
- Housing starts came in better than expected in February, registering 1.521 million units (annualized rate) which was ahead of expectations and +10.7% larger than January's 1.374 million-unit rate. Similarly, new home building permits also beat expectations in February, rising to 1.489 million permits, which was a gain of +2.4% month-over-month (MoM) from January's permitting figure.[1]
- Existing home sales also increased in February to 4.38 million (annualized rate) from January's 4.0 million, but compared to February-2023, existing home sales were down -3.3% year-over year (YoY).[1]
- As mortgage rates—30-year fixed rate—moved up to 6.97% last week, the mortgage application index decreased -1.6% from the week prior but is down -14% from the same period a year earlier. Applications for mortgages are again weakening towards levels approaching their 30-year low set October-2023.[1]
- Architectural Billing Index—a leading indicator on non-residential construction—improved in February to 49.5, but remains below 50—which signals contracting activity. Overall, the index is above 50 in the Midwest (50.7) but weakest in the Northeast (44).[3]
- Unemployment claims remain low, registering only 210k last week, just below the previous week's revised figure of 212k—through last Friday unemployment claims have totaled -35k less this year than through the same first 11 weeks of 2023.[1]

EXPECTATIONS

- Congress averted a partial government shutdown over the weekend by passing the final six appropriation bills needed to fund the government through the end of Sep-2024—the end of its fiscal year. The way forward for these bills was cleared after a compromise deal was reached between House Republicans and the White House over Homeland Security funding and border security.[4]

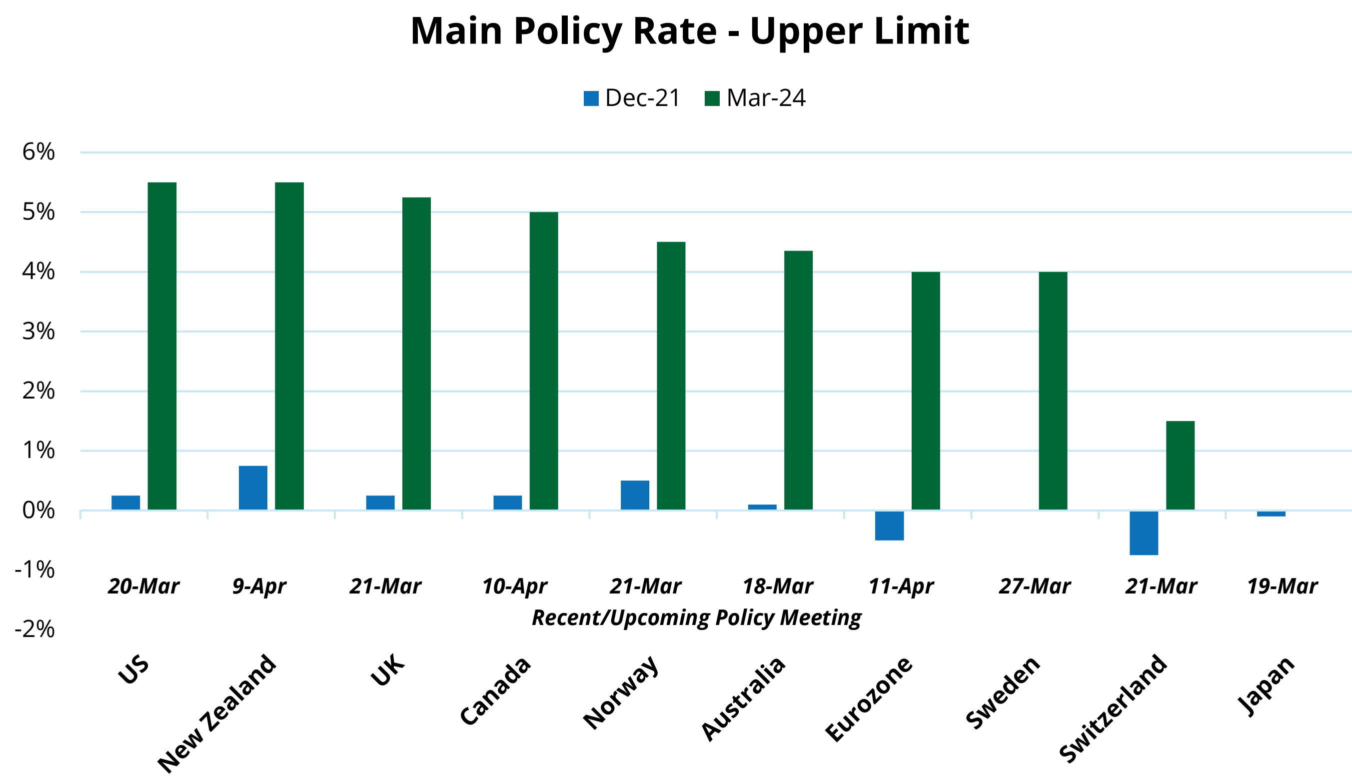
ONE MORE THOUGHT: *Six Central Banks Review Monetary Policy.*[1]

Six of the ten central banks of the ten most actively traded currencies met last week, including the US Federal Reserve, and the seventh (Sweden) will meet this week. Most of these central banks mirrored the inaction of the Federal Reserve stating that monetary policy could ease later this year, but more time is needed to ensure that inflation continues to decline towards their target. In the case of the US Fed, Chairman Powell stressed that most Fed officials foresaw the likelihood of cuts later this year, but that they were waiting for additional data and evidence that inflation is not likely to rebound anytime soon, but rather continue unambiguously towards their 2% target. The Bank of England meeting the day after the Fed echoed very similar sentiments, while the Bank of Australia which had met the day before the Fed noted that Australian inflation was heading in the right direction,

[1] *Bloomberg LP*
[2] *https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index, as of 3/18/2024*
[3] *https://live-aia-web.pantheonsite.io/about-aia/press/aiadeltek-abi-reports-moderation-slowdown-business-conditions-architecture-firms*
[4] *https://www.wsj.com/politics/house-senate-government-shutdown-vote-fccc16e6?mod=hp_lead_pos2*

but patience was needed as the inflation outlook was still too uncertain. One central bank that did take action last week was the Bank of Japan (BoJ), which hiked rates for the first time in 17 years, by removing its uncollateralized overnight call rate from a range of zero to -0.1% to zero to +0.1%—thus ending an eight-year period of negative interest rates. The BoJ stressed that it will still continue to purchase Japanese government bonds at the same rate as before and signaled that outright tightening of monetary conditions was still a ways off. Nonetheless, as economic historians look back on this era, BoJ's last meeting is likely to be the final bookend of the ultra-loose monetary policy that gripped the world in the wake of Great Financial Crisis. Similarly, the BoJ move—a small and tentative step towards policy normalization for Japan—could signal the formal beginning of an age of scarcity, whereby global central banks' tension between fighting inflation and spurring growth moves into greater balance and the era of easy money is confined to the history books.

CHART OF THE WEEK



Source: Clearstead, Bloomberg 3/21/2024

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