OBSERVATIONS

- Markets were mostly higher last week with the S&P 500 finishing the month at a record high (+0.4% on the week), while small caps (Russell 2000) gained +2.6% for the week, but the tech-heavy NASDAQ fell -0.3% and the yield on the 10-year Treasury finished the week where it started at 4.2%.[1]
- New home sales declined marginally, falling -0.3% month-over-month (MoM), in February to 662k (annualized rate) from January's revised figure of 664k—however, new home sales are up +5.9% year-over-year (YoY) from Feb-2023. Meanwhile pending home sales rose by +1.6% MoM in February.[1]
- The Case Shiller-CoreLogic Nation Home Price Index showed that despite high mortgage rates, overall home prices were up +6.0% YoY in January, which was an increase from December's +5.6% YoY gain.[1]
- Durable goods bounced back in February, registering a +1.4% MoM increase compared to January's -6.9% MoM decrease. Excluding the volatile transportation segment, durable goods orders were up +0.5% MoM in February, also rebounding from January's -0.3% MoM decline.[1]
- The Univ. of Michigan Consumer Sentiment Index continued to show improvement as the index hit 79.6 in March, which is the highest rating since July 2021.[1]
- The Fed's preferred inflation indicators showed some incremental progress against inflation. The headline PCE index showed inflation increased to 2.5% YoY up from January's 2.4% YoY figure, but core-PCE that excludes food and energy fell to 2.8% YoY, which was lower than January's 2.9% YoY figure.[1]

EXPECTATIONS

- Over the past several weeks the Ukrainian military has targeted several Russian oil refineries which have taken about 900k barrels a day of refining capacity offline. Some of this capacity may be repairable over several weeks, but some of the damage is extensive and may preclude oil refinement for a year or more at some Russian sites. Given this, many analysts expect additional price pressures for several distillates to increase over the coming weeks, particularly for diesel and jet fuel.[2]
- Problems in China's property market persist as China's second largest property developer, state-backed China Vanke, was downgraded two notches to junk (BB+) by Fitch amid plummeting sales and debt-repayment concerns—Vanke's longer dated dollar bonds are trading at 40% of par. Earlier in the month, Chinese authorities were asking local banks and creditors to step up support for the property developer as many analysts see China Vanke as a bellwether for Beijing's policies toward the beleaguered sector and as a signal that Beijing is trying to put a floor under falling confidence for the entire real estate sector.[1]

ONE MORE THOUGHT: *The Age of Labor Scarcity?*

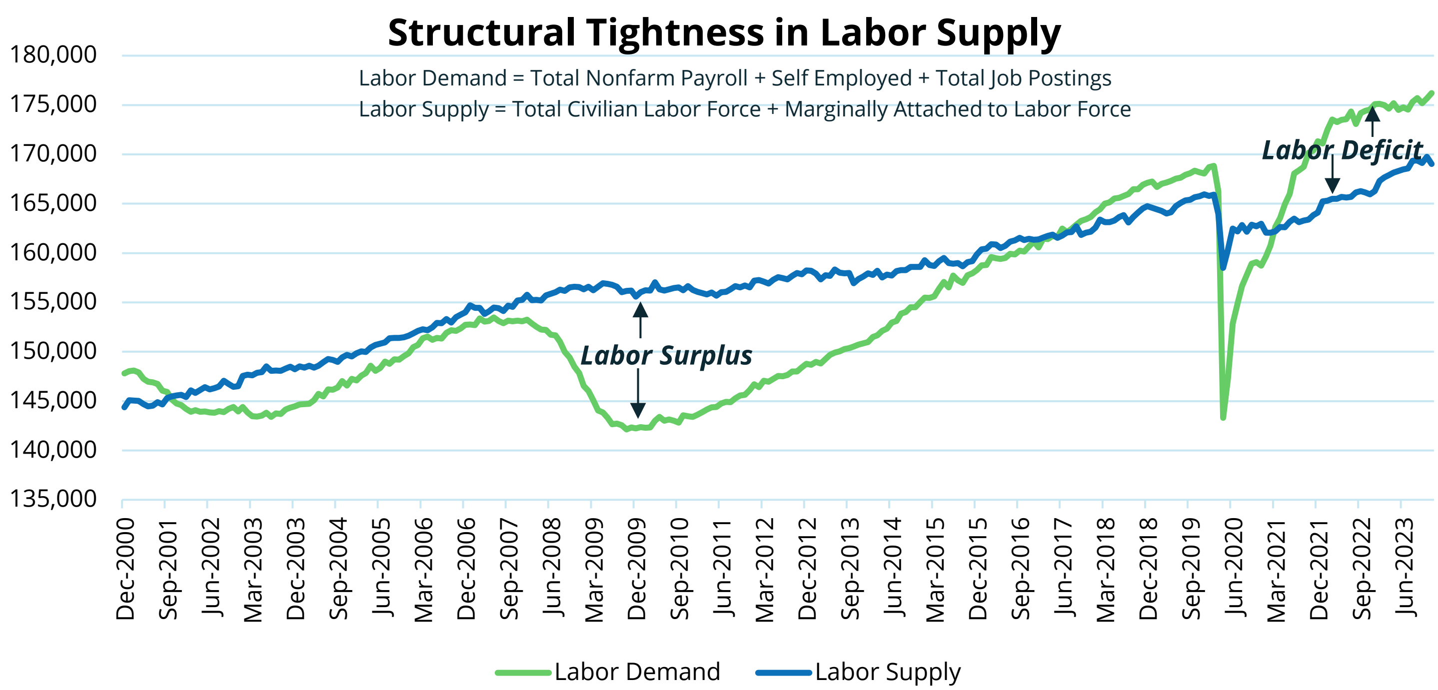
We have noted in past Research Corners that the cost of money has normalized from the period immediately following the Great Financial Crisis (GFC) as well as during the Covid pandemic that saw the Federal Reserve take interest rates to zero and the cost of financing and debt hit historic lows. In March-2022, the Fed began hiking rates and once again—true to the historic norms—money was again scarce. Similarly, in normal times, labor is also scarce, but in the immediate aftermath of the GFC, labor supply within the US was abundant. This was in part due to the fact that during the 2000s many companies had expanded supply chains overseas—effectively bringing large numbers of Chinese workers into global supply chains—but also because in the aftermath of the GFC many companies curtailed investment and hiring as they right-sized their balance sheets, paid down debt, and tried to

[1] *Bloomberg LP 3/29/2024*

[2] *Goldman Sach "Oil Comment: Ukrainian Drone Strikes on Russian Refineries Are Bullish for Diesel But Mixed for Crude" 25-Mar-2024*

rebalance production in the face of sluggish US and global growth. Then the Covid pandemic upended global labor markets. Millions died, others accelerated retirements, and still others shifted their preferences for working arrangements. In a simple illustration, we looked at total non-farm (W2) employment, those that are self-employed, and the number of open job postings compared to labor supply which includes all those currently working full-time plus those looking for work (unemployed population) as well as those who have looked for work over the past year but not currently looking for a job (marginally attached)—see Chart of the Week. What is clear is that labor demand exceeds the available labor supply—by our definition labor supply only excludes active military, students, and the incarcerated. Even if we assume that half of the current job postings are "phantom" job openings—job ads that are stale and not likely to lead to a near-term hire—the gap would persist. This suggests that labor has also moved from a period of surplus into structural scarcity within the US. This illustration suggests that the labor market may remain tight even if the economy slows and may give the Fed more leeway to keep rates higher for longer without having the labor market rapidly weaken.

CHART OF THE WEEK



Source: Clearstead, BLS, St. Louis Fed h/t Payden Rygel 1/31/2024

Aneet Deshpande, CFA
Chief Investment Officer
Clearstead

Dan Meges
Chief Economist & Head of Global Equity
Clearstead