OBSERVATIONS:

- After more recent disappointing housing data, January's pending US home sales rose +8.1% on a month-over-month basis (MoM), considerably higher than the +1.0% median estimate. Despite the strong data, sales of existing homes remain -22.4% lower than January 2022, and housing price increases have continued to soften.[1]
- Core durable goods orders (excludes aircraft and military spending) rose +0.8% in January, better than expectations and the highest MoM increase in five months.[1]
- China's economic activity as measured by the Purchasing Managers' Index (PMI) increased in February, with the composite PMI more solidly in expansion territory at 56.4. The resurgence was driven from the manufacturing side of the economy as China's economy reopened, with manufacturing activity reaching the highest reading in over a decade.[2] The services PMI was also stronger than expected in February at 56.3.
- US ISM manufacturing PMI increased slightly in February to 47.7 from January's 47.4, but remains below a level of 50 suggesting ongoing weakness in this sector—any figure below 50 indicates contracting activity.[1]
- Construction spending was largely unchanged in January from December, but residential housing construction continues to slow, but is being offset by increases in non-residential building and public-sector construction which includes spending on infrastructure projects.[1]
- Initial unemployment claims continue to remain low indicating a strong labor market, decreasing to 190,000 last week from the previous week's unrevised level of 192,000.[1]
- Bond yields resume trend higher; the 10-year US Treasury yield topped 4.0% (4.09%) last Thursday, the highest level since early November, before closing at 3.96% by end of week.[1]

EXPECTATIONS

- Following recent inflation data, futures markets have pushed expectations for the Fed's terminal policy rate to nearly 5.4% by the September 2023 timeframe.[1]
- Meanwhile, after unexpectedly higher inflation readings in parts of Europe, markets are now pricing in a terminal policy rate of near 4.0%—which, if realized, would be the highest policy rate since the European Central Bank was first formed in 1998.[1]
- This latest round of corporate earnings saw the quality of earnings deteriorate as every $1.00 of growth in earnings per share was only matched by a $0.88 growth in actual cash flows.[1] The difference in these two metrics suggests accounting manipulations typically spurred by corporations' desires to make EPS growth estimates even though cash receipts are growing more slowly.

ONE MORE THOUGHT: *Russia's invasion of Ukraine turns one year old*[3]

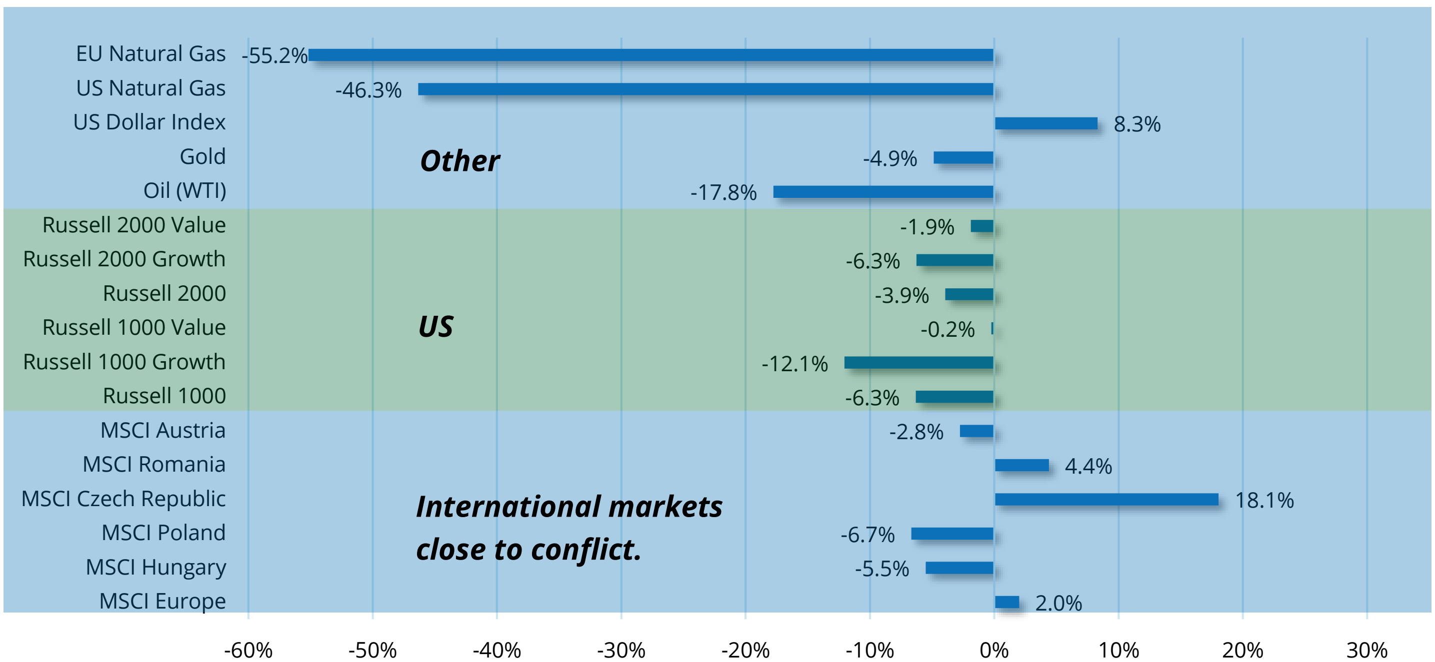
Just over one year ago, Russia surprised the world by surging Russian troops, tanks, and planes into Ukraine in an attempt to capture Kiev and topple the Zelensky government. Western sanctions on the Russian economy followed, and NATO supplies and equipment began to bolster Ukrainian forces. Since that ill-fated day, Russia has slowly lost ground, soldiers, equipment, and momentum as Ukrainian forces recaptured about half of the territory Russia initially seized in February and March of 2022. As a result, Russia has put its entire country on a war-footing; directing economic resources towards its military-industrial complex and re-instituting a partial draft of nearly any

[1] *Bloomberg LP*
[2] *https://www.reuters.com/markets/asia/china-feb-manufacturing-activity-expands-fastest-since-april-2012-official-pmi-2023-03-01/*
[3] *"The Future of Ukraine" The Economist 25-February-2023*

male between the ages of 18 to 40—with provision to selectively take prisoners or other select groups up to the age of 55. Despite raising around 500,000 additional soldiers in the second half of 2022 and deploying the vast majority of them to the frontlines this past January as part of a new 2023 offensive, Russia has not been able to regain the momentum nor roll-back nearly any of Ukraine's gains from the Aug to Dec-2022 period. It is expected that after nearly two months of intense fighting the Russian offensive will begin to wind down in late March or early April. With an unprecedented amount of Western aid beginning to arrive in Ukraine—it is expected that Ukraine will receive over the next 2-3 months about 70% as much military supplies and equipment that it received all of 2022—including over 100 NATO-produced tanks, Ukraine will be in a position to launch its own counteroffensive this Spring. After a year of brutal fighting this summer looks likely to see even more bloodshed, perhaps, however, it will begin to see battlefield developments tip decisively into Ukraine's favor. The alternative is a stalemate that could persist for years.

CHART OF THE WEEK

Performance of Select Asset Classes Since Russia Invasion of Ukraine



Source: Clearstead, Bloomberg LP, index performance from 2/24/2022 to 02/24/2023, MSCI index returns in US Dollar terms; Romania 3/1/2022-2/28/23

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Senior Managing Director of Equity
Clearstead