

OBSERVATIONS: *Relatively bad macro data last week, bank stocks still under pressure*

- The yield on 10-Yr US treasuries fell to 3.30% as of last Thursday before closing on Friday at 3.39% amidst disappointing economic data. This is the lowest level since mid-September 2022. Meanwhile, regional bank stocks (KRE – S&P Regional Banking ETF) retested their post SVB lows last week as the ETF dropped -2.8% for the week.¹
- Job openings in the US dropped to a seasonally adjusted 9.9 million openings, a two year low, down from January's 10.6 million, indicating a cooling employment backdrop though still relatively robust.¹
- Manufacturing economy continues to weaken: The Institute for Supply Management's (ISM) manufacturing index declined for the fifth straight month to 46.3 (below expectations), the lowest level since May 2020. Of the eighteen manufacturing industries tracked by the index, twelve reported a contraction.²
- The services economy (ISM Services index), meanwhile, showed expansion in March for the third consecutive month after registering a reading of 51.2 (though below expectations). The services sector has been in expansion for 33 of the last 34 months.³
- OPEC+, a group of major oil producers, announced an unexpected voluntary cut to oil production that will remove about 1.16 million barrels of oil production per day from the global oil market, which is likely to increase global inflationary pressures. As a result of the announcement, oil prices (Brent crude) moved up from around \$75 per barrel to nearly \$85 per barrel last week.¹
- The US economy added 236,000 jobs in March, the unemployment rate remained at 3.5%, and average hourly earnings rose by 4.2% year-over-year. The jobs report was in line with expectations, but continues to show, that while slowing from breakneck pace of mid-2022, the labor market remains tight.¹

EXPECTATIONS

- After ten consecutive rate hikes, the Australian Central Bank left its headline policy rate unchanged at 3.6% at its latest policy meeting last week. The bank was careful not to rule out the possibility of additional rate hikes but signaled that the rate hike pause would give them more time to "assess the state of the economy and the outlook, in an environment of considerable uncertainty."⁴
- Meanwhile, New Zealand's Central Bank hiked their main policy rate last week by +50bps to 5.25%--the highest rate in 15 years—although they expected the economy to slow, they judged that overall demand was still outstripping the island's economic capacity.¹

ONE MORE THOUGHT: *Regime shifting continues.*¹

At the onset of the Covid pandemic, the S&P 500 fell over -30% from mid-Feb-2020 to mid-Mar-2020. At that time, there were a great number of jittery investors, rightfully so. In recognizing the efforts from both the Federal Reserve to preserve functioning financial markets and the Government response to support the economy (which of course we can all debate in hindsight), we worked with our clients to remain invested, rebalance their portfolios appropriately, and focus on their long-term financial goals. *From the pre-Covid peak (2/19/2020) in the S&P 500 to date (3/31/2023), the S&P 500 has gained a +8.1% annualized return—this includes the terrible year of 2022.* As we progress through 2023, the world is changing in no small part because the Fed has been forced to hike rates aggressively to

¹ Bloomberg LP

² <https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/pmi/march/>

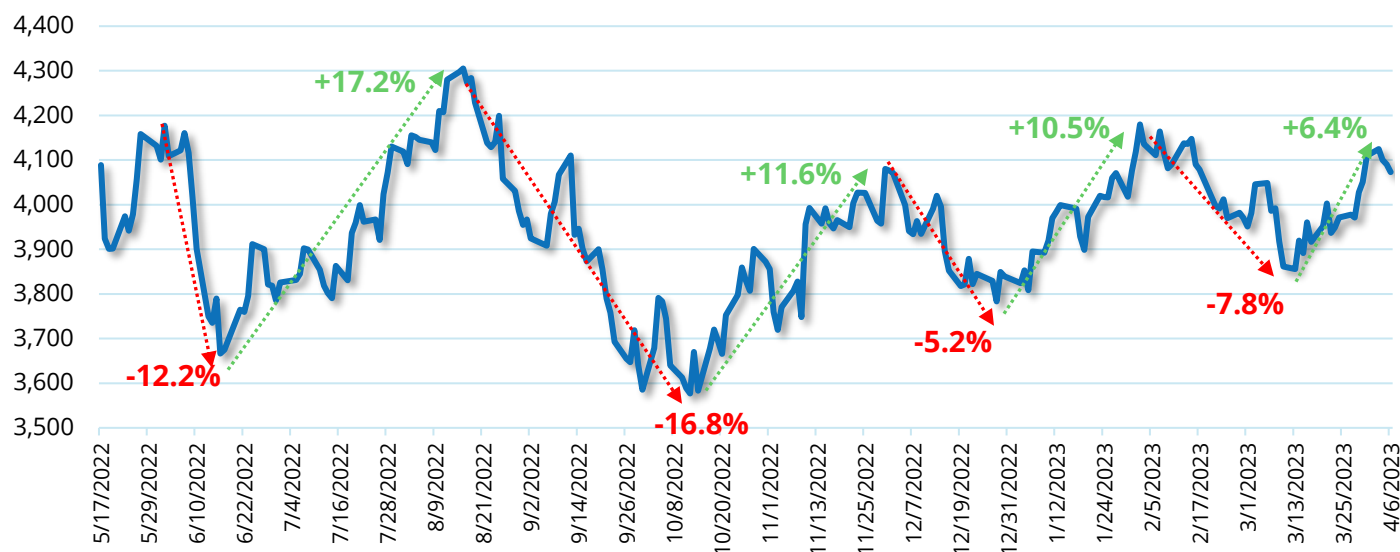
³ <https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/services/march/>

⁴ https://www.wsj.com/articles/reserve-bank-of-australia-holds-interest-rates-steady-as-inflation-softens-8e7818a7?mod=Searchresults_pos2&page=1

combat inflation and the lingering impacts of the Covid pandemic have resulted in structurally tighter labor markets—both here in the US as well as globally. As a result, the odds continue to increase that the Federal Reserve will be compelled to hike rates higher and hold them at a high level for an extended period of time. Barring a more pronounced systemic shock that forces the Fed to cut rates, the probabilities of which we can argue are increasing by the day as we have seen with recent bank stresses, higher for longer is the base case for rates. For much of the recent past, we have judged that US equity markets would likely be range-bound and that the current economic environment allowed for minimal further upside for most risk-assets here in the short-term. The S&P 500 has in fact been range-bound for the better part of a year now though with significant volatility within that range (Chart of the Week). The Fed has largely foreshadowed its intent to bring about a “period of below-trend growth” and the storm clouds are gathering over the US economy, corporate earnings outlook, and certain credit markets. Investors should brace for additional volatility, and we expect this range to persist in the near term. Earnings season kicks off this week and corporate profit guidance will be in focus with significant attention on the regional banks given recent events and deposit flows out of those respective banks.

CHART OF THE WEEK

S&P 500 - Going nowhere in an interesting way



Source: Clearstead, Bloomberg LP, S&P 500 Price index, daily as of 4/5/2023

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Senior Managing Director of Equity
Clearstead

Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. These materials do not constitute an offer or recommendation to buy or sell securities. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. You should consult with an investment professional before making any investment decision. Performance data shown represents

past performance. Past performance is not an indicator of future results. Current performance data may be lower or higher than the performance data presented. Performance data is represented by indices, which cannot be invested in directly.