



OCTOBER 3 2022

Your weekly commentary on the economy, markets, and other financial topics.

1

LEADING LOSS

The Conference Board's Leading Economic Index, a seven-month leading economic indicator, has now fallen for six straight months for the first time since the Housing Bust. Worse, the average change during this six-month period has been -0.46%, below the recession threshold of -0.4%. Of the 10 variables in the Index, just two are positive; one just barely (*source: The Conference Board*).

2

TROUBLING TRANSPORTATION

The Dow Jones Transportation Average, which tracks 20 large U.S. transportation-related firms fell 12% month-to-date, double the decline of the S&P 500. Declines in transportation suggest less need for goods, materials and travel, unsurprising given high and rising interest rates. Overall, the index is down 26% this year, yet another recession warning worth heeding (*source: Dow Jones*).

3

EUROPEAN ENERGY

With European energy inflation running in the triple digits as Russia dramatically curtailed deliveries, Europe is nearly certain to suffer a recession starting in 22Q4, probably lasting at least three quarters, and will likely also experience persistently high inflation, or stagflation (*source: Barclay's Research*).

4

MORTGAGE MAYHEM

On September 27, 2022, the 10-year Treasury briefly hit 4%, up from 1.52% on December 31, 2021, the fastest rise since 1981. Additionally, the spread between the rising 10-year Treasury and the 30-year mortgage is approaching 200 basis points, the largest gap since the Fed raised rates during the Housing Bust. The gap is so large because investors fear more unexpected rate hikes and want protection (*source: FFF Research*).

5

MESMERIZING MORTGAGES

Because mortgage rates were so low for so long and so many houses were sold between June 30, 2020 and December 31, 2021, data show that as of July 31, 2022, 90% of first mortgages have an interest rate below 5%, and more than 66% have a rate below 4%. This rate “lock-in” will prevent a big rise in new listings from materializing and thus help prop up home prices (*source: Black Knight*).

6

ILLUSTRATIVE IPOS

Of all Initial Public Offerings (IPOs) on U.S. exchanges last year, 87% are trading below their IPO price. This is the worst year for IPOs in a decade with just \$7.2 billion raised, versus \$154 billion in the calendar year 2021 (*sources: Dealogic and Wall Street Journal*).

7

MARKET MOVEMENT

Over the course of an average year, the percentage of down trading days the S&P 500 experiences is approximately 45%, with the market up the other 55%. Since 1957, the worst year for the market was 1974 when down days exceeded 57%. The second worst year is, unsurprisingly, 2022, with the down day percentage slightly above 55% (*source: S&P Dow Jones*).

8

CURRENCY CONCERNS

While there is some talk of a United Kingdom currency crisis, the concern is misplaced. Currency crises occur in nations with floating exchange rates either when the nation in question has large debts denominated in foreign currency or when markets fear that public debt will not be serviced and will instead be monetized, meaning the central bank prints money to buy government debt. This is not the case in the U.K. (*source: FFF Research*).

9

SOFTENING SALES

Existing home sales dipped just 0.4% month-over-month in August after falling 5.7% in July and 5.4% in June, suggesting the sales decline may soon end. However, August closed sales represent purchase contracts signed in late June, July, and early August. On June 30, 2022, 30-year mortgage rates peaked at 5.81% and bottomed on August 4, 2022 at 4.99%. With rates now over 6%, sales will fall further (*source: Freddie Mac*).

10

LAGGING LUXURY

For the three months ending August 31, 2022, sales of luxury homes, defined as the top 5% of homes, fell 28.1% year-over-year, exceeding the 19.5% drop in non-luxury home sales. While the wealthy may not be directly impacted by rising rates, a falling stock market and a likely recession are collectively deterring even the uber-rich (*source: Redfin*).

11

OFFICE OUTPUT

During the week ending September 14, 2022, office attendance hit a new peak of 47.5% of its pre-Covid level, with mid-week totals hitting 55%. However, the US office vacancy rate is 12.4%, the highest since Covid began, and well up from 9.6% pre-Covid (*source: Kastle Systems/CoStar*).

12

PETROL PRICES

Gasoline prices vary for many reasons, including state taxes and fees (T&F). The average amount of T&F across all 50 states and D.C. is 31.02 cents/gallon. The state with the highest T&F is California at 65.1 cents/ gallon, while the lowest is Alaska at 8.95 cents/gallon (*source: U.S. Energy Information Agency*).

13

BATTERED BUTTER

While headline CPI is 8.3% and grocery inflation is 13.5%, butter inflation is a churning 24.6% year-over-year! The dairy herd shrank last year as feed and labor costs surged, squeezing farmer margins despite record-high milk prices. Moreover, higher butter prices abroad boosted exports and more milk is being diverted to making cheese, leaving less for butter (*source: Labor Department*).

14

LATIN LANGUAGE - THE FUN FINALE

The singular of agenda in Latin is agendum. Similarly, candelabra, stamina, insignia, and trivia have all undergone a grammatical change to become singular in English. This fate is (regrettably) befalling data and will eventually transform memoranda and strata. Other Latin words like stadium and ultimum retain their Latin singular form, but rather than pluralizing as stadia and ultimate as in Latin, they have become stadiums and ultimatums in English (*source: The Economist*).
