Ropes Wealth Takes Stock of Inflation and Housing Data and the Russian Invasion One Year Later

Today, Ukrainian president Volodymyr Zelensky marked the one-year anniversary of Russia's invasion of Ukraine with the following words: "On February 24, millions of us made a choice. Not a white flag, but a blue and yellow flag. Not fleeing, but facing. Facing the enemy. Resistance and struggle. It was a year of pain, sorrow, faith and unity. And this is a year of our invincibility. We know that this will be the year of our victory!"

The world is watching breathlessly as Putin and Zelensky bear down for more fighting. President Biden visited Kyiv and Poland this week, and China issued a 12-point proposal for a cease-fire with terms flattering Putin. More sanctions are being implemented against Russia, targeting banks and the defense and tech industries. More aid packages and weapons donations are being readied by the U.S. and Europe. The largest land war in Europe since World War II continues, with no end in sight.

Likewise, the fight against inflation continues, and the Federal Reserve is not winning the battle. The Fed's preferred PCE inflation metric showed inflation pressures were hotter than expected in January and warmer than estimates from December, echoing the message from previously released CPI and PPI inflation data. Headline PCE inflation rose 0.6% in January and 0.2% in December, both 0.1% firmer than economists believed. The annual rate of inflation accelerated from 5.3% in December, previously estimated as 5.0%, to 5.4% in January, 0.4% faster than forecasted and the first acceleration in four months.

At the core level, prices jumped a historically strong 0.6%, the largest monthly gain since June and the fourth hottest monthly increase since 1984. Combined with prior upward revisions, January's heat lifted the annual rate from 4.6% to 4.7%, well above the 4.0% rate economists had expected. After six months of deceleration, the six-month average annualized rate rose from 4.58% to 4.71%. While the quantitative metrics were clearly a concern for investors because of the implications for monetary policy, the qualitative signals may be even more alarming. The strength of the monthly inflation pressure was broad across categories, including the non-housing core services category the Fed is concerned could lead to more persistent problems.

In other news, existing home sales fell in January for the twelfth consecutive month and are now near their lowest levels since October 2010. This is the longest run of declines since 1999. On an annual basis, the pace of sales was down by a record high 37%, notably lower than the year-over-year declines observed during the 2008 Financial Crisis. Properties remained on the market for 33 days in January, up from 26 days in December and 19 days in January 2022. With houses remaining listed for longer, prices are also starting to feel the impact. According to a statement by the National Association of Realtors (NAR): "Homes sitting on the market for more than 60 days can be purchased for around 10% less than the original list price." The median selling price was down for the seventh straight month after reaching a record high and was up only 1.3% year-over-year marking its smallest annual increase in 11 years. Meanwhile, the average 30-year mortgage rate jumped 23 basis points to 6.62%, now up 44 basis points in the last two weeks. In response, purchase applications fell 18.1% last week; this brought the overall level of purchase applications below the lowest levels from the housing crisis to a new low since 1995.

Other economic reports this week showed strong services and manufacturing activity with both PMI indices reflecting expansions, even as fourth quarter GDP was cut from 2.9% to 2.7% in the revised release thanks to downward adjustments in personal consumption. And while new home sales rose 7.2% to a 670,000 annualized pace, that was fueled entirely by purchases in the South and the market remains well off the highs of 2021.

Stock and bond markets made big moves this week, with stocks cutting back year-to-date gains by over -3% and bond yields surging. The yield curve has shifted dramatically in these last few weeks, with the 2-year yield now at 4.79%, its highest level since July 2007, and the 10-year yield at 3.93%. The yield curve remains deeply inverted, with six-month U.S. Treasury bills offering 5.10% even as 30-year bonds pay 3.90% in today's markets. We must all come to grips with the notion of "higher for longer" on rates and brace for a slog through a tough period of calibrating to that change. Taking advantage of short-term bond yields is one way to navigate, but also keeping focus on shifts in stock prices as the impacts of rising rates and higher inflation do not have equal effects on all companies. To that point, smaller capitalization companies and overseas markets continue to be this year's standout performers, benefitting from valuations with a lot more cushion and a declining dollar in the case of foreign stocks. Therefore, diversification is working well again, and is a key tool we continue to emphasize as we navigate these volatile markets and shifting conditions on your behalf.

Thank you as always for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

The information set forth in this communication is presented by Ropes Wealth Advisors LLC ("Ropes Wealth") a wholly owned subsidiary of Ropes & Gray LLP. The contents are for informational and educational purposes only and are not intended as investment, legal or tax advice. Please consult with your investment, legal or tax advisor concerning any specific questions you may have. Ropes Wealth cautions the reader that past results are not indicative of future performance. The historical return of markets generally and of individual assets classes or individual securities may not be an accurate predictor of future returns of those makers, asset classes or individual securities. Ropes Wealth does not guarantee the accuracy and completeness of any sourced data in this communication.

Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600