Basis Points – May 3, 2022

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Above the Fold

Could China’s Weakness Help Our Inflation Problem?

China is flirting with a recession for the first time in decades, and economists are watching closely as U.S. and European recession concerns continue to grow (early readings on domestic gross domestic product showed a -1.4% contraction). Many analysts believe that the Chinese government has several ways to avoid a traditional recession (technically two consecutive quarters of contraction), including heavy government spending and other stimulative programs. But with high unemployment rates, slowing international demand and strict COVID-19 policies, China’s troubles may not be that easy to solve. Factory and service-sector activity showed contractions for the second straight month according to purchasing manager indexes, reaching their lowest levels since the pandemic in 2020. While experts think a full-blown, deep recession is unlikely for China, any sustained slowdown in its economy will be felt globally.

The IMF (International Monetary Fund) released data stating that China is expected to account for 25% of global economic growth through 2026. Brazil, and other commodity-exporting countries, rely on Chinese demand for metals like iron ore. This demand could continue to drop as China’s pandemic lockdowns continue to shut down factories. Machinery and components exporters like Japan and Taiwan are also feeling the effects of Chinese factories closing their doors. Ford Motor Co. reported a 19% drop in sales last quarter compared to the year before, much of it due to supply chain constraints.

Obviously, there will be global repercussions if the Chinese economy continues to slow, but some economists are optimistic about the possibility that normalizing demand could moderate prices and maybe help the U.S. economy avoid a recession of its own. As global economies slow (including China), demand for goods and energy could ease inflationary pressures for the rest of the world. At the same time, declining global growth may have at least some impact on the Federal Reserve, possibly slowing the interest rate hikes they have planned for the rest of the year.

Three Things

Does It Make Sense to Go “Off-Grid”?

You’ve likely heard friends or family vow to deactivate social media accounts and go “off-grid,” but is it actually worth it? According to several studies, many people who have chosen to cut at least one social media platform out of their lives say they are getting better sleep, have more free time, and have less anxiety than before they left social media. So, while shutting down all your digital connections might not be easy, reducing one’s social media burden seems to improve overall happiness … even if fewer people remember your birthday.

There’s Still Upward Pressure on Food Prices

Corn and soybean prices have reached near-record highs and don’t show any signs of slowing down. The cost for soybeans is up 27% this year so far and up 37% for corn. With corn and soybeans being major ingredients for so many different foods and goods, these price increases are being felt by consumers just looking to buy the necessities. And since prices for these core ingredients are expected to remain elevated, the average consumer will likely need to tighten or augment their grocery budgets this year.

Amazon’s and Other Tech Giants’ Earnings May Be Misinterpreted

Amazon stocks dropped 10% late last week before leveling out a bit higher. This dip comes after projecting a slower Q2 than stockholders were hoping to see. The projection is not drastically lower than it should be, the problem is that investors have gotten used to the massive revenue during the pandemic. Amazon CEO Andy Jassy said in a letter to shareholders that they “… realized the equivalent of three years’ forecasted growth in about 15 months.” Investors will have to modulate their expectations and get used to a more normal earnings growth pattern for the company moving forward, and that may take a little getting used to.

In the Know

Last Month’s Performance Was Worst Since 2008

The Nasdaq dropped to 4.2% on Friday, bringing its losses for the month down to 13% following a difficult month in the tech industry. These numbers are Nasdaq’s worst showing since 2008 and, with the index down 21%, this is their worst start to a year on record. Tech and growth stocks have long been a favorite for investors, and are all taking a nosedive as recession looms over the U.S. economy. That said, the broad selloff is likely to present some opportunities, and good stocks with stable earnings potential might be considered if they are cast aside along with their riskier counterparts.