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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

As woes surrounding the ongoing conflict in Europe and the broader economic impact continue to mount, the epicenter of the Coronavirus pandemic has recessed into an all-too-familiar state. China has continued to deploy the world's strictest COVID-19 policies, announcing a new wave of lockdowns in the city of Shanghai last week. In total, over 25 million residents have been banned from going out for at least one week as officials conduct mass testing in an effort to curb the spread of a surging Omicron variant.

As China's most populous city and a major hub for global trade, the significance of a lockdown in Shanghai cannot be understated. The city has been a leader in transforming China into a post-industrial economy, shifting away from the traditional manufacturing sector that the country is most well-known for and investing resources into financial services, real estate, and technology industries, to name a few. The result is an annual GDP of over $680B, accounting for just shy of 5% of China's total GDP[1]. Economists estimate lockdowns in Shanghai cost over $46B per month[2], a price worth noting for a country set to record its slowest economic growth in over a decade. Outside of China, the question now becomes whether global trade will be impacted, further straining the supply chain and placing continued pressure on prices. One of the busiest ports in the world, The Port of Shanghai moves over 700 million tons of cargo per year[3], making it the largest port by volume globally and a key cog for international trade. Chinese authorities did not specifically exclude port workers from the latest wave of lockdowns, however, because a large share of them live and work on-site, port facilities have been able to remain open. A rare win for a hampered global supply chain. Early reports are showing that operations at the port are running as normal, and congestion is only moderately elevated at this point. However, these reports are exactly that, early. While the port itself may have the capacity to operate as normal, the flow of goods into and out of the port could be significantly challenged as the lockdowns impact outside industries and transportation. This of course presents a strong possibility for increased congestion, delays, and freight costs.

[1] The World Bank
[2] Chinese University of Hong Kong
[3] Shanghai Port Authority

With Shanghai being such a significant center for global trade, it will be important to monitor how this situation unfolds in the coming weeks. On a separate but much brighter note, despite many ongoing challenges the equity market here in the U.S. has continued to climb the wall of worry. The S&P 500 posted its first positive month of the year, gaining 3.58% in March and pulling the index back within 5.55% of its January 3rd record-high close. Thanks for reading, and as always, if you have any questions, or if we can help in any way, please don't hesitate to give our office a call.

With My Best Regards,

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