Weekly Market Commentary

THE WEEK IN REVIEW: May 8 - 14

No real relief from inflation

There was a lot of anticipation that last week's Consumer Price Index (CPI) and Producer Price Index (PPI) readings for April would yield some encouragement on the inflation front. Although the CPI deviated slightly downward from March's 8.5% reading, it's still elevated at 8.3% and above expectations for 8.1%. PPI – which measures what manufacturers of the things we buy pay for the materials they need to make those things – was even hotter. The reading signaled we were nowhere near prices slowing their increase, let alone falling.

March's record inflation numbers were elevated by gas prices. This month, we are once again at record levels for gas as the summer quickly approaches, so the slight dip from 8.5% inflation may have been a mirage. The PPI certainly indicated we are not cresting; maybe the rate of increase is moderating, but it is still trending up.

With that as the most recent backdrop, talk will once again shift to the Federal Reserve, interest rates and odds of a recession. Hope that the Fed will ease in its aggressive approach to tighten rates was dashed with the CPI and PPI numbers. Let's face it: The Fed hasn't actually done much other than talk. They haven't started to unwind their massive $9 trillion balance sheet and have raised rates by 75 basis points (0.75%) so far, with additional half-point hikes planned in the next two meetings. Everything else is speculation.

Jerome Powell was confirmed by the Senate for another four-year term as Federal Reserve chairman last Thursday and promptly gave a speech where he said there may not be a soft landing. That statement may translate into the Fed being more concerned about inflation than they are about possibly driving the economy into a recession. This could lead to them overcorrecting, and if they do a poor job of communicating it, it could make a bad situation worse.

Given our current mess and since the Fed hasn't begun to wind down its balance sheet, another unanticipated 2% rise in rates will likely have a negative effect on bonds and the housing market. We recently had the lowest consumer confidence reading in 11 years, the war in Ukraine is still raging, oil is still at $110 per barrel, and the 10-year U.S. Treasury yield is still close to 3%. Gross domestic product (GDP) growth is slowing, and we have only raised rates from 0 to 75 basis points while the market is down nearly 20%. I believe we need to raise rates closer to 5% to get inflation in check. Some of that is already priced into the market – but not all. The market still thinks we'll be at 2%-3% on interest rates. Based on that assumption, there could be more downside in the near term, although we may be closer to the bottom than most think. Once we do hit rock bottom, it's anyone's guess how long we will linger there before we start our upward climb.

Markets need to see the light at the end of the tunnel

The recent market volatility can act as an indicator of how soon we could see a settling of the market and a potential change in its direction. There are still lots of headwinds, but after a rough week, markets rallied late Thursday into Friday. We shouldn't make much of it, though, as we were bound to move up after so many down days.

Here's one take: As we neared 3,850 on the S&P 500, the algorithms kicked in, and the computers started buying. The 3,850 level would have marked a 20% decline for the S&P 500 from all-time highs, so it was an important psychological threshold. We had similar resistance at 4,200 before the market gave that up. This is the kind of pain we will keep seeing until all the speculators and "traders" have given up. This is a tender market, and we have yet to see a day or week where the market hits the deck and just sits there at a real bottom. You can see it on days when we start strong and fade into the close or rally midday only to see the gains evaporate.

The "traders" and "dip-buyers" need to step back. For investors, it's important to avoid chasing your tail or letting the daily ups and downs rattle your plans. If you succumb, all you will do is lock in losses that may soon revert, as has happened in the past. The human element is the wildest of cards, and that's why people buy high and sell low and destroy wealth. There will be brighter days ahead; ask yourself why you invest for the long term and if you feel the markets will be higher next year or three years from now. Stay calm and focused. You have a plan and an advisor to help you execute that plan!

Coming this week

- Last week's readings did not yield the desired declines in the inflation rate. This week's data will be light, and earnings are coming to an end. So don't hold out hope for help on that front.

- We have more Fed governors speaking this week. In the absence of data or significant earnings, there will be way more speculation, which could lead to continued volatility.

- Retail sales numbers will come out this week. They should continue to be strong, which contributes to inflationary pressures.

- Mortgage applications and new home sales data are scheduled for Wednesday. We should see a slowdown in this area. With conventional 30-year rates at well over 5%, existing home sales data on Thursday may also show a slowdown.

- Finally, also on Thursday, we will have leading indicators and a pretty big bond auction. Both of these could add to additional volatility.

Weekly Numbers

Index Performance Returns %					
	1 WK	YTD	1YR	3 YRS	5 YRS
S&P 500	-5.23%	-17.54%	-3.27%	10.90%	10.45%
NASDAQ	-7.69%	-27.32%	-12.74%	12.83%	13.19%
DJIA	-3.84%	-12.68%	-5.53%	6.94%	8.71%

Interest Rates:		
	5/13/2022	5/6/2022
UST 10-YR Government Bond Yield	2.92%	3.11%
Germany 10 YR	0.946%	1.114%
Japan 10 YR	0.245%	0.245%
30 YR Mortgage	5.57%	5.42%
Oil	$108.60/ppb	$109.07/ppb
Regular Gas	$4.43/ppg	$4.29/ppg

All data as of May 13, 2022

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