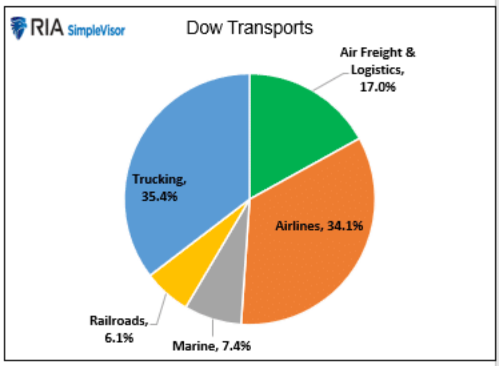
The Dow Jones Transportation Index is down about 12% in just the last seven days, while the S&P 500 is only down about 3%. The graph on the left shows the stark performance differential. While not well followed, the Transportation Index is a good barometer of the economy due to the importance of shipping. The pie chart to the right shows the weighting by sub-industry within the Transportation Index.

Dow Theory was well followed by market participants, but as economic activity shifted from goods to services, the theory lost traction among investors. The idea compares the Dow Transportation Index to the broader market. When the indexes confirm each other, the recent trend is intact. Currently, the Transportation Index is falling much more than the broader market. Is it signaling that the broader markets will soon catch down to it? Or is the recent decline in the index due to specific concerns within the industry?



[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Initial jobless claims**, week ended April 2 (200,000 expected, 202,000 during prior week)
- 8:30 a.m. ET: **Continuing claims**, week ended March 26 (1.302 million expected, 1.307 million during prior week)
- 3:00 p.m. ET: **Consumer credit**, February ($18.100 billion expected, $6.838 billion in January)

Earnings

Pre-market

- **Conagra Brands** (CAG) to report adjusted earnings of $0.57 on revenue of $2.85 billion
- **Lamb Weston Holdings** (LW) to report adjusted earnings of $0.44 on revenue of $971.88 million
- **Constellation Brands** (STZ) to report adjusted earnings of $2.11 on revenue of $2.01 billion

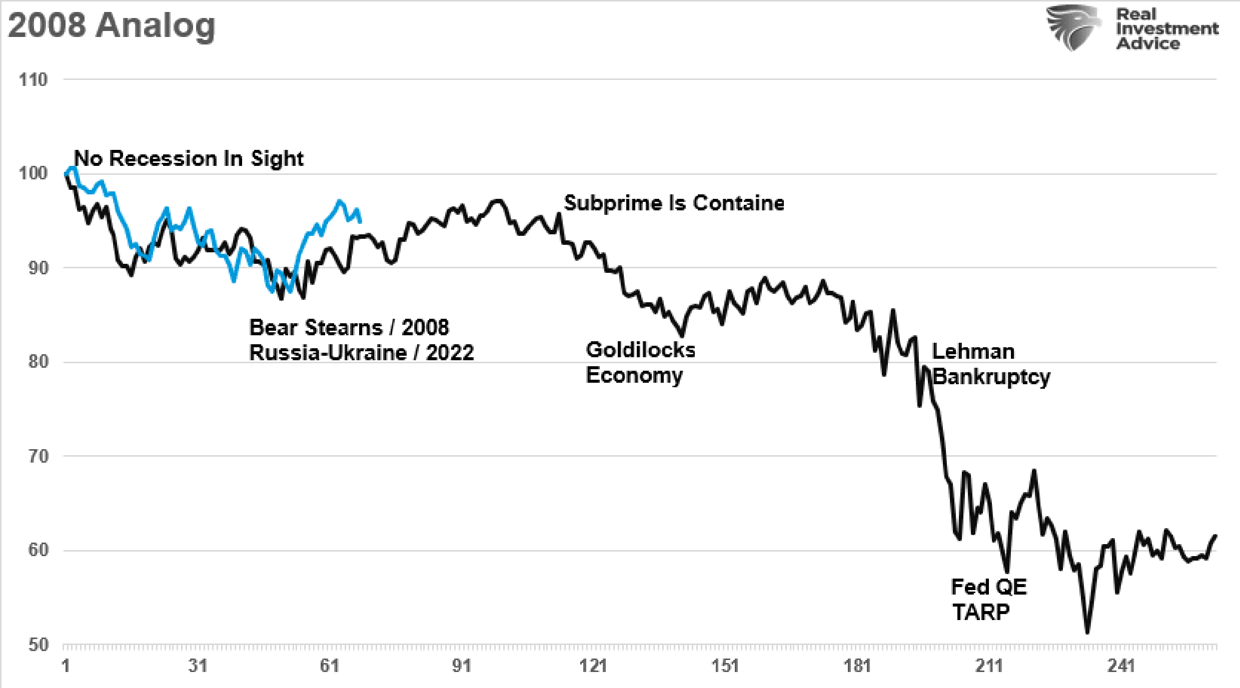
Post-market

- *No notable reports scheduled for release*

Market Trading Update

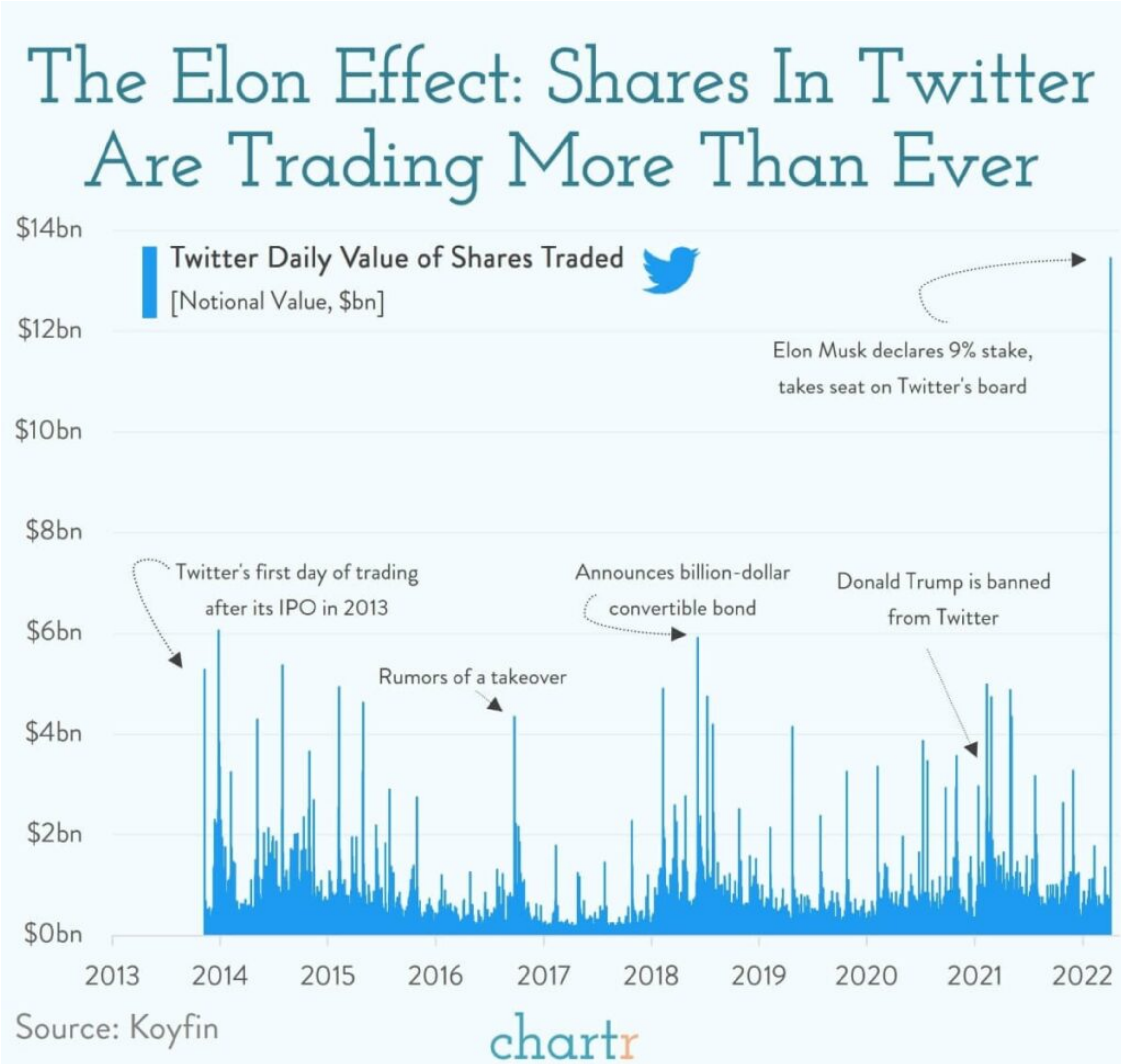
We talked about the market trading above support while working off the overbought condition. Despite the selloff yesterday, the market remains above key support at the 50-dma. The selloff this week has reversed about 50% of the overbought condition but the sell signal remains firmly intact for now. April tends to trade more firmly heading into mid-month, so if support holds, we could see another rally attempt back to recent highs. Remain cautious for now.

2008 - Back To The Future



Elon Musk Pays $3 Billion For An Edit Button

> *"This week Elon Musk announced that he'd acquired a* ***9% stake in social media site Twitter****, earning him not only a seat on the company's board, but also the title of the company's largest shareholder, with more than* ***4x*** *the shares held by founder and ex-CEO Jack Dorsey.*
>
> *The news has sent shares in Twitter up more than 30%, with more than* ***$13 billion*** *worth of shares changing hands on Monday* ***alone****. That's more than double even the busiest days of trading from Twitter's 8-and-a-half years as a public company. It's way more than the $5bn that changed hands on Twitter's first day of trading after its IPO, it's more than was traded when Google was rumored to be looking at acquiring Twitter in 2016 and it's* ***4x*** *what was traded when Donald Trump was banned from the platform last year."*



> *"Musk's interest in Twitter is unlikely to be **directly** financial. With a net worth north of **$200 billion**, his stake in Twitter represents just over **1%** of his wealth. But he uses the platform more than any other major public figure, promoting Tesla, SpaceX and - increasingly - his views on free speech and politics in between memes and jokes."*

Or, did Elon just pay **[$3 billion to get an edit button](#)**.

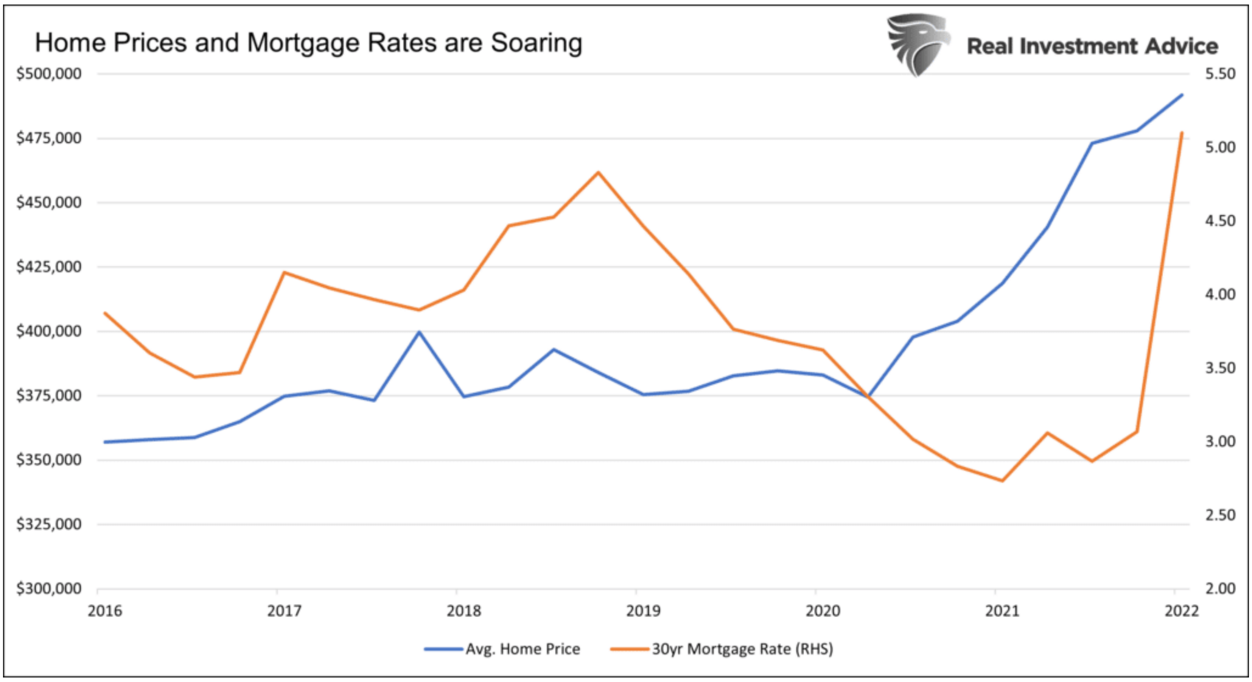
Hawkish Fed Minutes

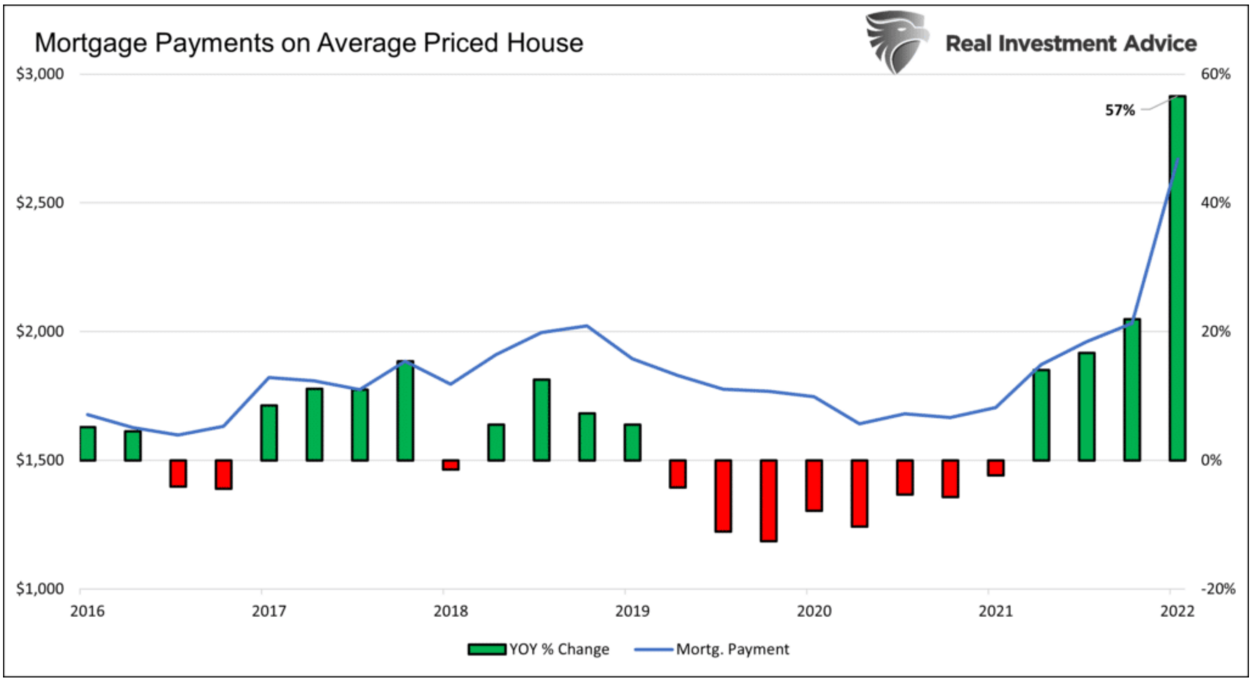
The [Fed minutes](#) from the mid-March FOMC are decidedly more hawkish than we gleaned from the original statement and press conference. While only one voting member dissented on the vote for a 25bps rate increase,"many" members wanted 50bps. They also seem to allude that rate hikes in 50bps increments are coming at future meetings. It was "generally agreed" that they would start to shrink the balance sheet (QT) after the May meeting at up to a $95 billion a month rate. They will likely allow bonds to mature versus selling bonds to meet their goal. However, they want a more Treasury centric portfolio going forward. To wit- *"Participants generally agreed that after balance sheet runoff was well underway, it will be appropriate to consider sales of agency MBS to enable suitable progress toward a longer-run SOMA portfolio composed primarily of Treasury securities."*

5% Mortgages Will Hurt the Economy and Homebuilders

On Tuesday, the 30-year mortgage rate eclipsed 5%. At the same time, house prices are rising rapidly. The effect of both is crushing to homebuyers, as we show below. The first graph highlights that the 30-year mortgage rate has recently increased from three to five percent. Since the pandemic, the average price of a home is up from $375k to $491k. The second graph shows that the mortgage payment for an average-priced house has soared 57% in just the last year. The combination of rates and prices will affect the demand for homes and will likely weigh on house prices. Further, housing represents between 15 and 18% of GDP, so housing affordability will also weigh on the economy.

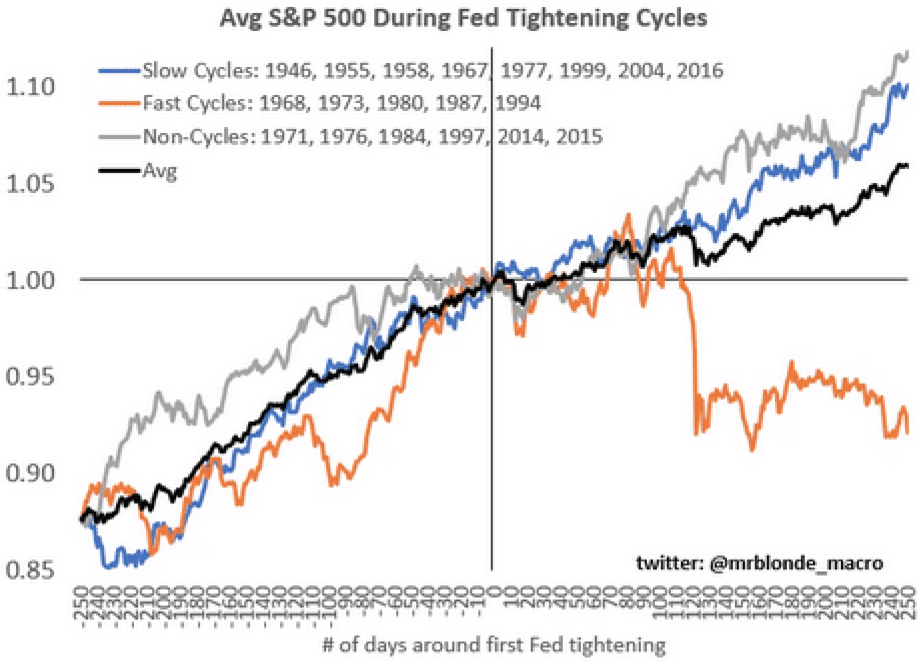
XHB, the homebuilder ETF, is down about 25% this year. New Home Supply is bustling as new home builders race to fill the strong demand for new homes. While the decision to build months ago may have seemed sound, it is questionable now, with mortgage rates hurting the affordability of new home buyers.





Don't Fight The Fed

In his article [Don't Fight The Fed](), @mrblonde_macro argues that all Fed rate hiking cycles are not the same regarding stock performance and valuations. The graph and table below show that when the Fed aggressively tightens monetary policy, i.e., Fast Cycles, the S&P 500 tends to struggle. Slow Cycles, when the Fed can better telegraph its intentions, and the uptick in rates can be better managed, has little effect on stock prices or P/E ratios. Based on inflation and the Fed's projections, we are entering a Fast Cycle. 'FED MINUTES INDICATE THE MOST HAWKISH FED TIGHTENING CYCLE SINCE 1994' -CNBC



Year	First Fed Tightening	Cycle Pace	Fed Funds Rate	10yr Yield	S&P 500 LTM P/E	Chg in Funds Rate (in bps) First Hike	6mo Later	12mo Later	% Chg in S&P 500 Price 12mo Prior	6mo Later	12mo Later	% Chg in LTM P/E 12mo Prior	6mo Later	12mo Later
1955	4/15/55	Slow	1.44	2.7	12.8	-18	81	111	35.9%	9.4%	26.3%	17%	-6%	-6%
1958	9/12/58	Slow	1.65	3.5	16.8	25	95	190	8.3%	16.1%	18.3%	29%	11%	11%
1967	11/20/67	Slow	4.08	5.9	17.3	40	235	170	12.8%	5.7%	15.8%	17%	2%	2%
1968	12/19/68	Fast	5.95	6.1	18.7	40	225	315	12.4%	-8.4%	-14.6%	4%	-10%	-10%
1971	7/16/71	Non	5.25	6.7	18.4	25			29.8%	4.5%	7.8%	34%	-3%	-3%
1973	1/15/73	Fast	5.75	6.4	18.3	75	375	325	14.6%	-12.1%	-20.4%	2%	-22%	-22%
1976	12/1/76	Non	4.75	7.0	10.5	113	113	175	14.7%	-6.1%	-7.6%	-8%	-10%	-10%
1977	8/31/77	Slow	6.00	7.3	9.1	25	75	225	-6.0%	-9.4%	6.7%	-17%	-12%	-12%
1980	8/7/80	Fast	9.50	10.7	8.3	50	650	600	16.3%	4.2%	6.9%	12%	5%	5%
1984	3/27/84	Non	9.50	12.5	10.4	100	225	-50	3.6%	5.3%	14.1%	-13%	-5%	-5%
1987	4/30/87	Fast	6.00	8.2	18.0	75	88	75	22.4%	-19.1%	-9.4%	24%	-22%	-22%
1994	2/4/94	Fast	3.00	5.9	17.3	25	125	300	4.5%	-1.8%	1.9%	-18%	-9%	-9%
1997	3/25/97	Non	5.25	6.8	19.1	25			21.4%	20.5%	39.6%	12%	15%	15%
1999	6/30/99	Slow	4.75	5.8	29.3	25	75	175	21.1%	6.1%	5.1%	15%	-2%	-2%
2004	6/30/04	Slow	1.00	4.6	18.4	25	125	225	16.1%	5.6%	4.4%	-6%	-1%	-1%
2013	12/18/13	Non	-2.00	2.9	16.7	-13	-99	-77	25.1%	7.0%	13.8%	17%	3%	3%
2015	12/16/15	Non	-0.01	2.3	17.6	26	49	43	5.1%	0.3%	9.1%	4%	2%	2%
2016	12/14/16	Slow	0.43	2.5	19.1	-1	60	85	10.3%	7.8%	17.7%	10%	2%	2%
		All	**4.0**	**6.0**	**16.4**	**37**	**156**	**180**	**14.9%**	**2.0%**	**7.5%**	**7.6%**	**-3.4%**	**-3.4%**
		Slow	**2.8**	**4.3**	**17.9**	**17**	**107**	**169**	**14.1%**	**5.9%**	**13.5%**	**9.5%**	**-0.8%**	**-0.8%**
		Fast	**6.0**	**7.5**	**16.1**	**53**	**293**	**323**	**14.1%**	**-7.5%**	**-7.1%**	**4.9%**	**-11.5%**	**-11.5%**
		Non	**3.8**	**6.3**	**15.4**	**46**	**72**	**23**	**16.6%**	**5.3%**	**12.8%**	**7.7%**	**0.4%**	**0.4%**

Source: Bloomberg, twitter: @mrblonde_macro

Note: Fed Funds effective rate prior to 1970, then Fed Funds target rate to 2008, then Wu-Xia Shadow Fed Funds rate

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Please [subscribe to the daily commentary]() to receive these updates every morning before the opening bell.