With first-quarter earnings announcements starting soon, investors are trying to figure out how inflation will impact corporate bottom lines and forward-looking guidance. Conagra (CAG), which just reported its quarter-ending February results, may share some clues. The company warned of continued inflation due to higher input prices and shipping costs. Revenues rose 4.7%, but earnings slipped as Conagra could not entirely pass rising costs onto consumers. To that end, sales in dollar terms rose, but volumes fell. Conagra expects rising input costs to continue for at least six months. They forecast it will reduce about 1% from their operating margins. Despite the bad news, Conagra's stock held up well, as it has during this bout of high inflation.

[dmc]

What To Watch Today

Economy

- 10:00 a.m. ET: **Wholesale trade inventories,** month-over-month, February final (2.1% expected, 2.1% in January)
- 10:00 a.m. ET: **Wholesale trade sales,** month-over-month, February (0.8% expected, 4.0% in January)

Earnings

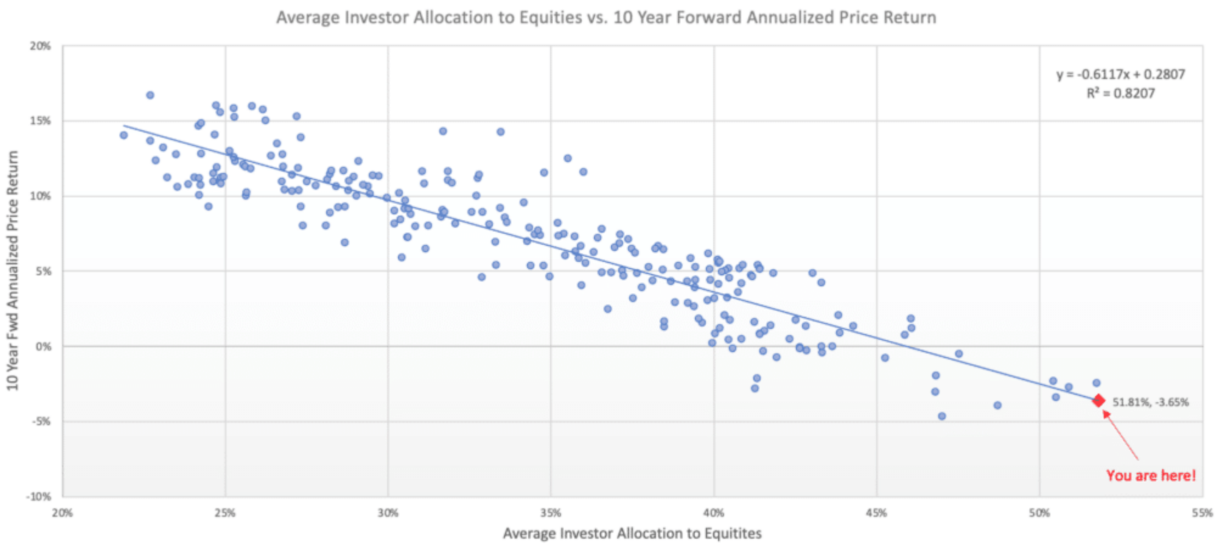
- *No notable reports are scheduled for release*

Market Trading Update

The continued sloppy action over the last week is doing its job of working off the overbought condition while maintaining critical support about the 50-dma. With both of the technical sell-signals about 50% of the way through their normal reversion, a few more days of sloppy action should open up the window for a decent tradeable opportunity on the long side. We will look to add some trading positions to the portfolio when we get to those levels.

Long-Term Returns Don't Look Great

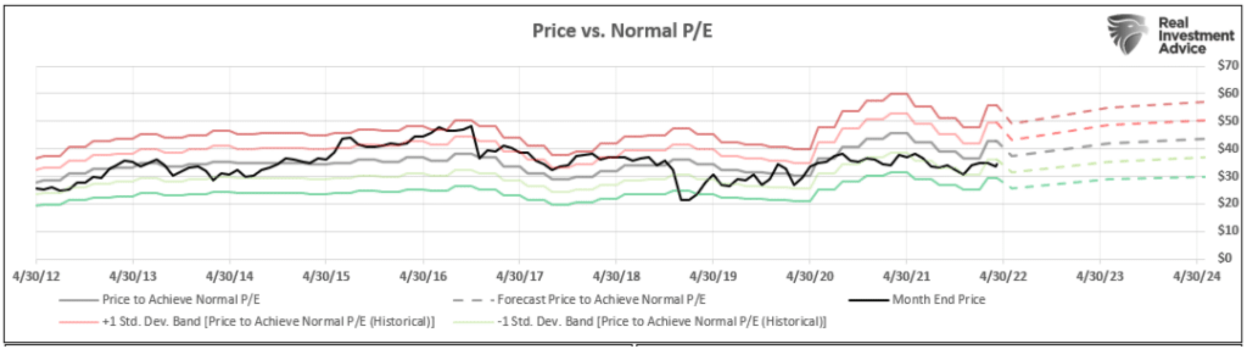
Our colleague, ***Jim Colquitt of Armor ETFs,*** sent the chart below of 10-year forward returns as compared to the investor's allocation to equities. As noted in red, the outlook for investors over the next decade isn't great. However, such does NOT mean returns will be low every year. There will be some years in the decade ahead with very good returns. What it suggests is that there will be a couple of years with very negative returns that will need to be avoided.



More on Conagra

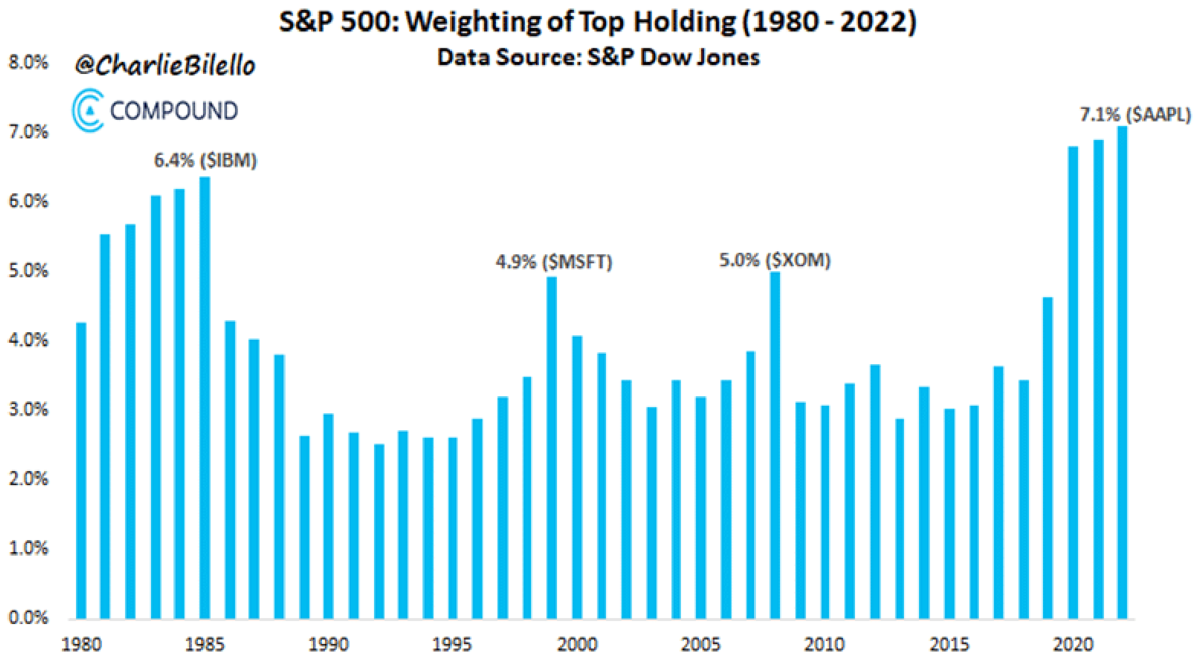
Conagra's stock (CAG) has held up reasonably well. Year-to-date, CAG is up about 1%, while the S&P 500 is down 7%. One of the themes this year has been the outperformance of the conservative sectors. To wit, consumer staples ETF (XLP) and utilities ETF (XLU) is up 1% and 7.5%, respectively. Given the outperformance of CAG and many other conservative stocks, we must ask are they becoming overvalued.

In last Friday's Commentary, we did a brief analysis of 3M (MMM) using our internal valuation model. We share our model again to explore CAG's valuation. The model estimates a fair value price based on P/E of $42, which is about 20% above its current share price. Zacks agrees as they model the price at 21.5% below fair value. Using P/S, CAG is close to fair value. With a P/E of 13 and a P/S of 1.5, it's hard to argue CAG is pricey. The caveat to this analysis is the threat of sustained higher inflation and a weak economy. Such a stagflationary outlook will weigh on their profit margins, earnings, and likely the stock price.



Apple is the King of the Hill

The graph below from Charlie Bilello shows that Apple (AAPL) now accounts for 7.1% of the S&P 500. It is the largest weighting since at least 1980. Next in line is Microsoft with a 6% weighting.



The Inflation Pendulum

The Tweet below from The Kobeissi Letter shares a critical concept. Essentially high inflation crushes demand and leads to lower inflation. The greater the inflation, the greater the swing toward deflation. When the pendulum swings back toward deflation, bond yields will plummet.

The Kobeissi Letter @KobeissiLetter · 7m

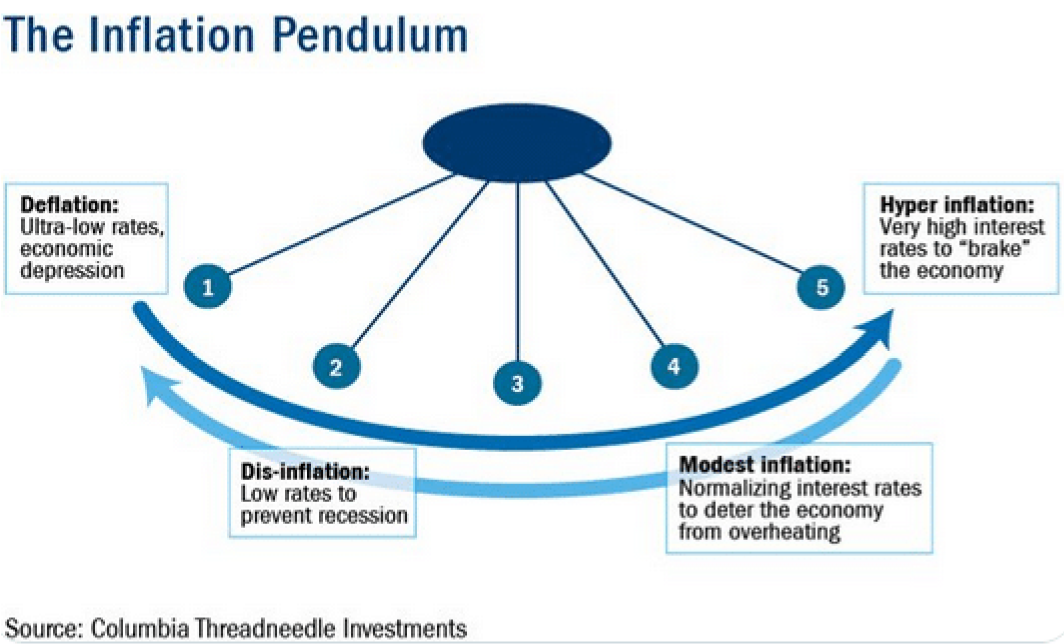
The economy is like a pendulum with inflation on the right and deflation on the left.

The Fed aims to keep that pendulum in the middle, limiting its swings.

We have now swung the farthest to the right (inflation) since 1980.

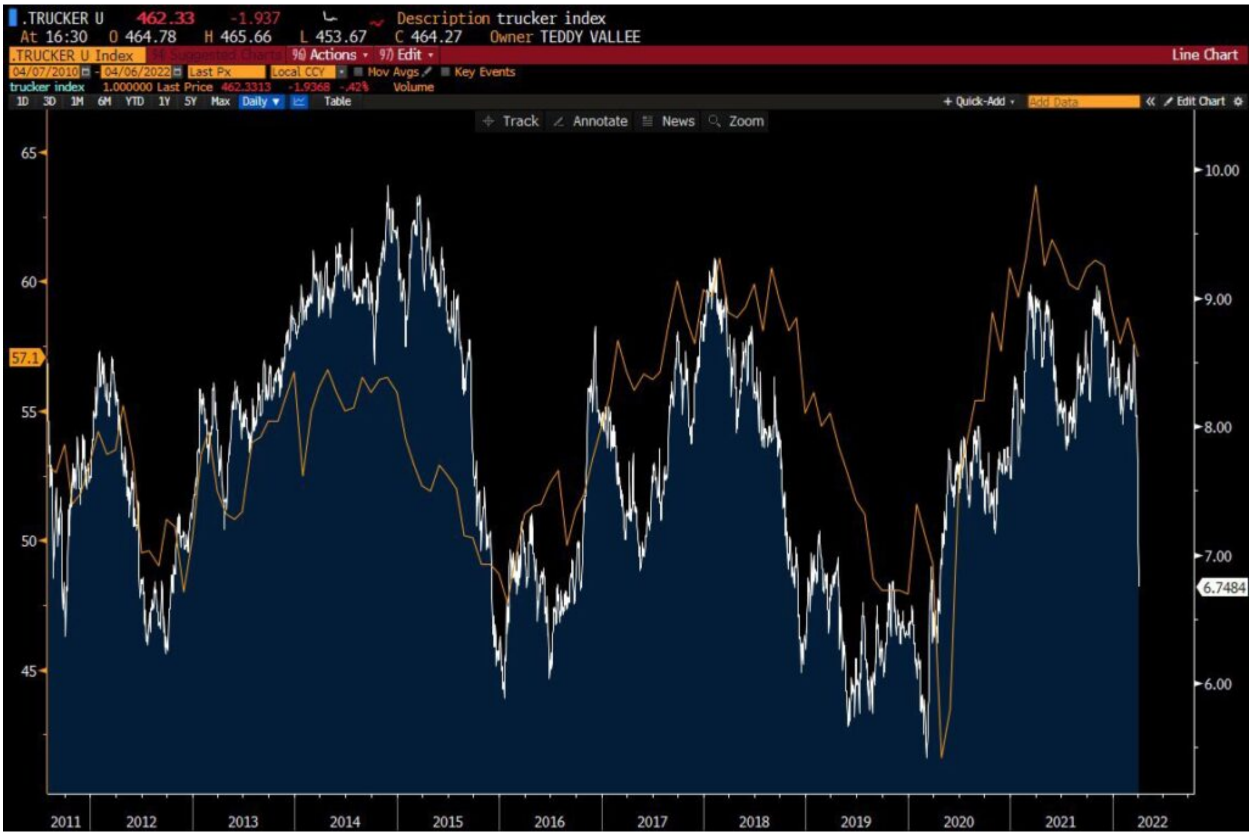
The swing back will be dangerous;

Deflation awaits.



More on Transportation Stocks

In Thursday's Commentary, we highlighted the sharp sell-off occurring in the Dow Jones Transportation Index and discussed its potential for the broader stock indexes. Today we expand on the topic with a graph from Teddy Vallee. His chart below shows the correlation between the health of the transportation industry and the economy. In particular, Teddy uses a proprietary index of the trucking industry versus the ISM Manufacturing Survey. Keep in mind that the ISM survey is well correlated and predictive of future economic growth. If the relationship between trucking and ISM proves accurate, ISM should fall into contractionary territory fairly shortly.



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