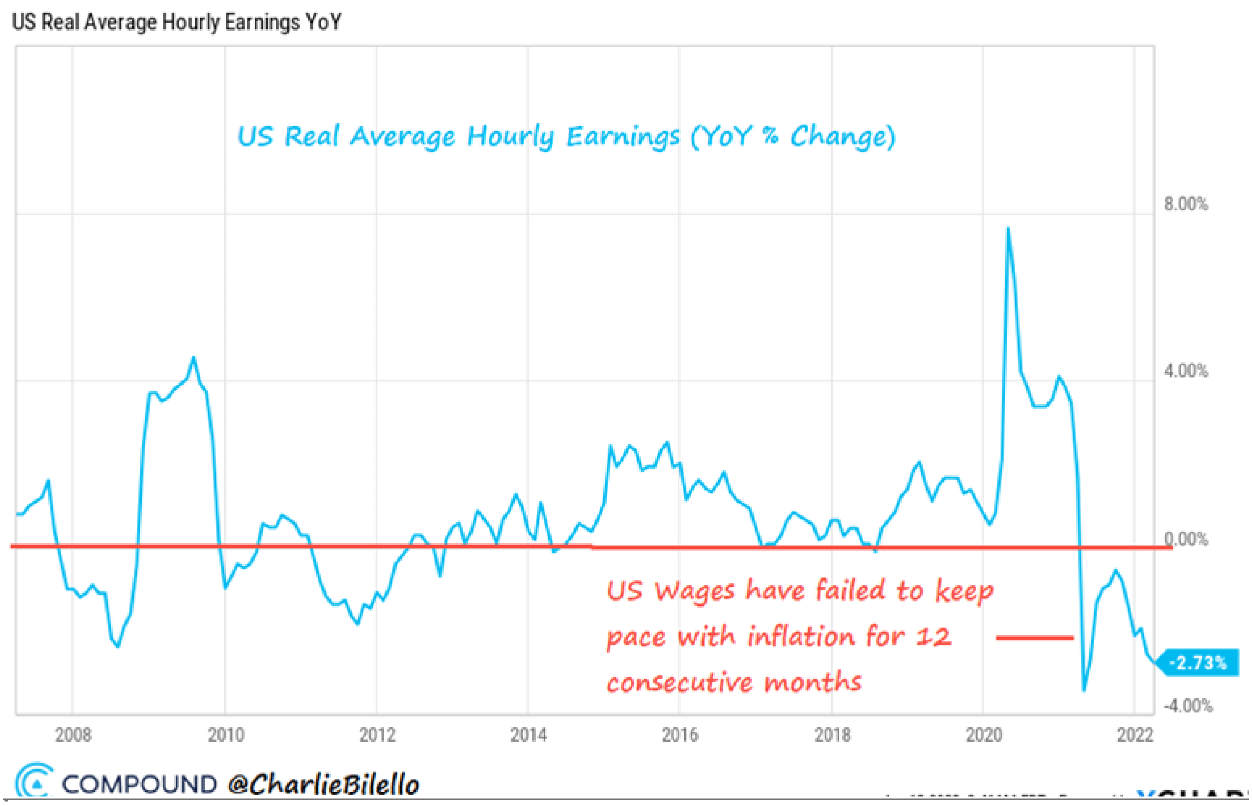
The latest round of CPI inflation data confirms a troubling situation for many workers. Salaries, while rising rapidly, are failing to keep up with inflation. The graph below, courtesy of Charlie Bilello, shows that the change in hourly salaries less the inflation rate has been negative for a year straight. As a result, many people must choose between consuming less or taking on more debt to offset what amounts to declining wages. Over the past year, revolving credit, predominately credit card debt, has risen by 14%. That compares to an annual average of 4% in the eight years leading to the Pandemic. Negative real salary growth and rapidly growing debt loads are a classic recipe for an economic slowdown/recession. With economic uncertainty rising and nominal salary growth slowing, the Fed must control inflation if it seeks healthy economic growth.






## What To Watch Today

### Economy

- 8:30 a.m. ET: **Retail Sales Advance**, month-over-month, March (0.6% expected, 0.3% during prior month)
- 8:30 a.m. ET: **Retail Sales excluding autos**, month-over-month, March (1.0% expected, 0.2% during prior month)

- 8:30 a.m. ET: **Retail Sales excluding autos and gas**, month-over-month, March (0.2% expected, -0.4% during prior month)
- 8:30 a.m. ET: **Retail Sales Control Group**, March (0.0% expected, -1.2% during prior month)
- 8:30 a.m. ET: **Import Price Index**, month-over-month, March (2.3% expected, 1.4% during prior month)
- 8:30 a.m. ET: **Import Price Index excluding petroleum**, month-over-month, March (1.0% expected, 0.7% during prior month)
- 8:30 a.m. ET: **Import Price Index**, year-over-year, March (11.8% expected, 10.9% during prior month)
- 8:30 a.m. ET: **Export Price Index**, month-over-month, March (2.2% expected, 3.0% during prior month)
- 8:30 a.m. ET: **Export Price Index**, year-over-year, March (16.6% during prior month)
- 8:30 a.m. ET: **Initial jobless claims**, week ended April 9 (170,000 expected, 166,000 during prior week)
- 8:30 a.m. ET: **Continuing claims**, week ended April 2 (1.500 million expected, 1.523 during prior week)
- 10:00 a.m. ET: **Business Inventories**, February (1.3% expected, 1.1% prior)
- 10:00 a.m. ET: **University of Michigan Consumer Sentiment**, April preliminary (59.0 expected, 59.4 during prior month)
- 10:00 a.m. ET: **U. of Mich. Current Conditions**, April preliminary (67.0 expected, 67.2 during prior month)
- 10:00 a.m. ET: **U. of Mich. Expectation**s, April preliminary (54.0 expected, 54.3 during prior month)
- 10:00 a.m. ET: **U. of Mich. 1 Year Inflation**, April preliminary (5.5% expected, 5.4% during prior month)
- 10:00 a.m. ET: **U. of Mich. 5-10 year Inflation**, April preliminary (3.0% during prior month)

## Earnings

- **PNC Financial** (PNC) to report adjusted earnings of $2.77 on revenue of $4.78 billion
- **Wells Fargo** (WFC) to report adjusted earnings of $0.80 on revenue of $17.77 billion
- **Goldman Sachs** (GS) to report adjusted earnings of $8.90 on revenue of $11.73 billion
- **Morgan Stanley** (MS) to report adjusted earnings of $1.70 on revenue of $14.20 billion
- **Ally Financial** (ALLY) to report adjusted earnings of $1.94 on revenue of $2.14 billion
- **Citigroup** (C) to report adjusted earnings of $1.63 on revenue of $18.00 billion
- **State Street** (STT) to report adjusted earnings of $1.47 on revenue of $3.04 billion
- **Rite Aid** (RAD) to report an adjusted loss of $0.49 on revenue of $5.97 billion

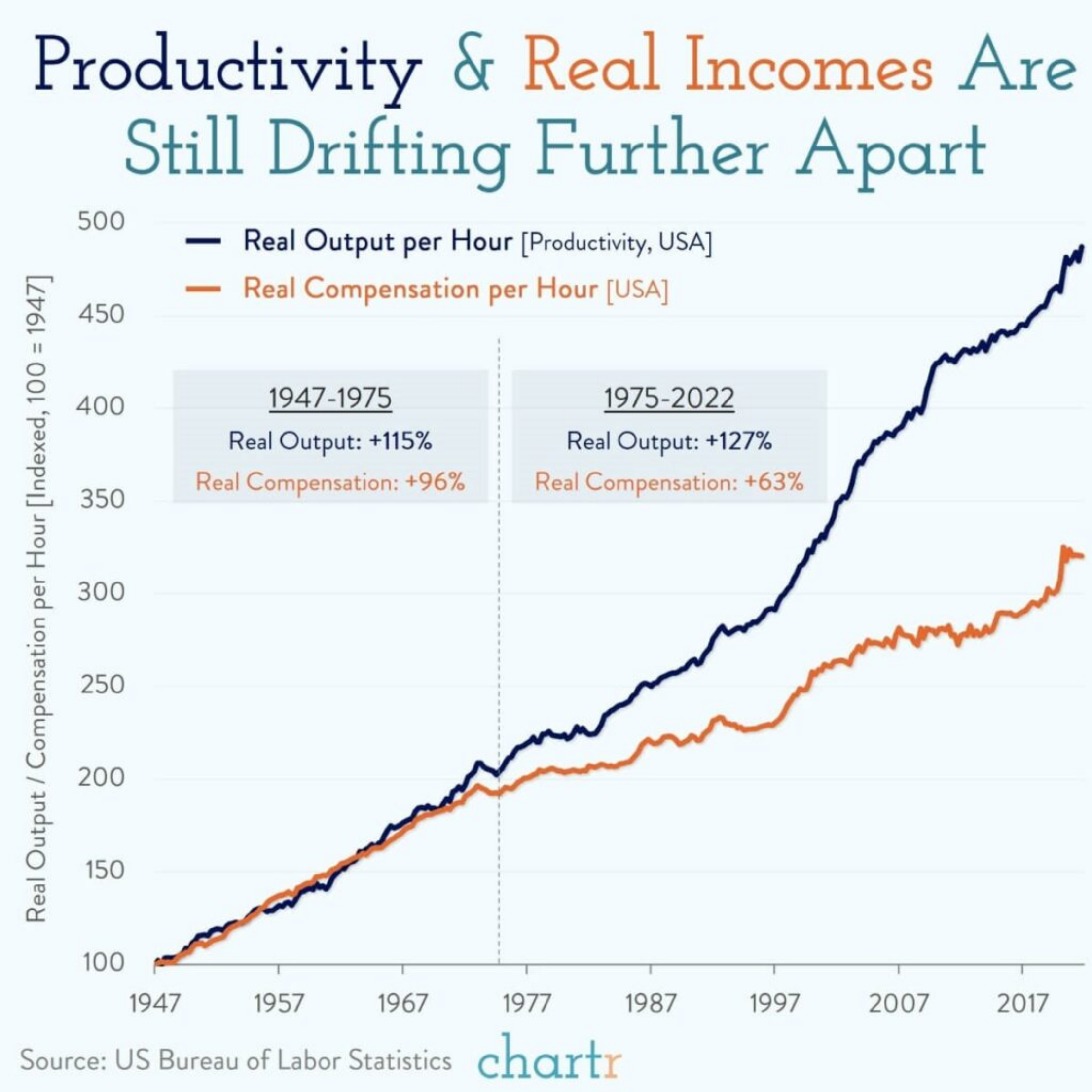
## Market Rallies Holding Support

Yesterday, the market pulled off a strong rally to kick off the earnings season. As noted recently the market had gotten decently short-term oversold and if the market can rally today, it should trigger a "buy signal" suggesting a bit more room to run next week. Importantly, the market climbed back above the 50-dma keeping that support level intact for now.


## Productivity & Real Incomes

Picking up on our salaries theme this morning, a note for Chartr made a good point on productivity and real wages.

> *"Inflation is sort of just one side of the economic story for workers, the other of course being wages. Without matching pay rises, wages fall in real terms ? which is likely to contribute to a further widening of the "productivity-pay-gap", the gap between output and pay that's been growing for decades.*
>
> *Indeed, according to data from the **US Bureau of Labor Statistics**, the amount of **"stuff" produced** by a typical worker in the US per hour (what an economist would call productivity) has gone up roughly **127%** since **1975**, but the real **compensation of workers** has only gone up by around half of that amount **(63%)**. That's a far cry from the 1947-1975 period when those two variables moved almost in lockstep.*
>
> *Advances in technology, globalization, government policy, and many, many more variables have all contributed to the share of income going to labor decreasing ? and soaring inflation isn't going to help."*



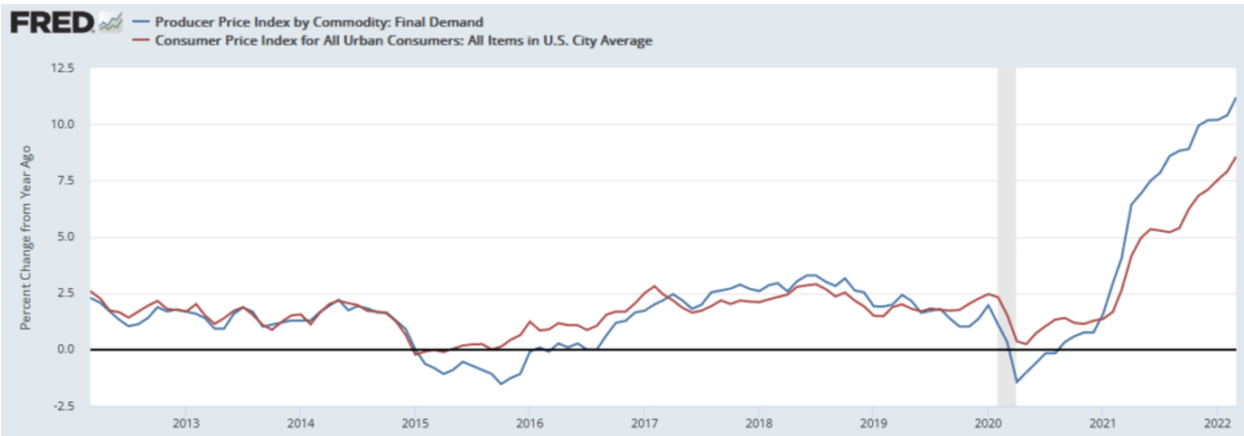

## JP Morgan (JPM) Starts Earnings Season With A Warning

JP Morgan (JPM) reported earnings that fell short of EPS expectations but beat on revenue. From a macroeconomic perspective, the reason for their EPS miss provides a warning to other banks and for the economy in general. Banks hold loss reserves as protection against credit losses. At times they build these reserves and other times shed them. Often they add reserves when their economic forecast deteriorates and shed them when economic growth is strong. Building credit reserves are a drag on EPS, and the opposite holds for reductions in reserves. With salaries not keeping up with the costs of living, the reserve build is logical.

In the first quarter, JPM added $902 million or .23 cents per share of credit reserves. The addition to reserves speaks to concerns that JPM expects credit losses to rise. As such, JPM implies the odds of a recession or at least a weakening economy are increasing. Per CNBC- CEO Jamie Dimon had this to say about the reserve build: "*CEO Jamie Dimon struck a note of caution in his remarks, saying that he built up credit reserves because of ?higher probabilities of downside risk? in the U.S. economy*."


## CPI Silver Linings Dashed with PPI

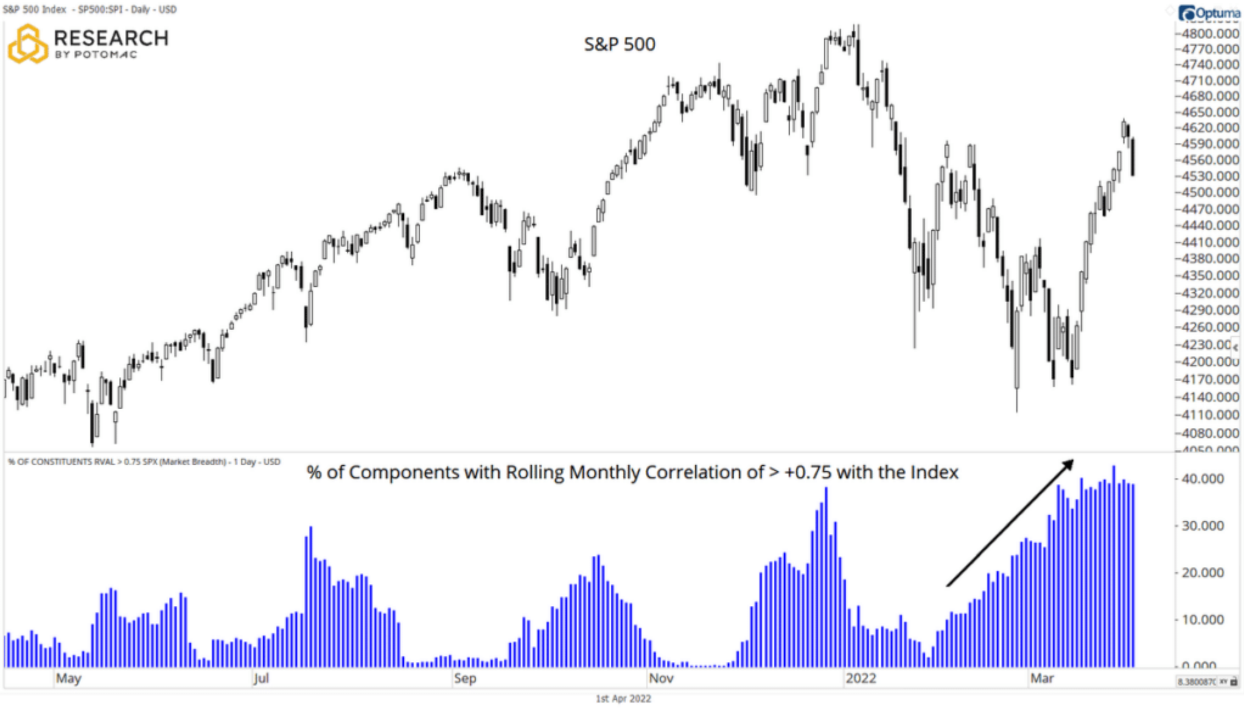
The CPI data on Tuesday provided some economists with a glimmer of hope that inflation was abating. The core CPI monthly number fell from .5% to .3%. PPI dashed hopes that inflation is cooling. Year-over-year PPI rose 11.2%, well above 10% last month. Unlike CPI, the core PPI data, excluding food and energy, rose 1% versus .7% last month. PPI warns we are not out of the woods yet. PPI tends to lead CPI to some degree as it can take a few months or even longer for producer price changes to filter into consumer prices. The graph below shows the growing gap between CPI and PPI.




## Stock Correlations

The following chart and quote are from Callum Thomas.

"*We can deduce from this chart that the correction saw big rotation, whereas the rebound, however, floated all boats...Correlations spike during times of panic selling and panic buying: especially when it's a generalized risk-on/off move, and especially accentuated by passive flows.*"




This year, investors who rotated to high dividend yield and low beta stocks have outperformed the market during recent market declines. The table below shows the year-to-date returns, in the far right column, are positive for low beta, high dividend yield, and value stocks. At the same time, all other factors are down for the year. If the bear market is going to continue, the last three months of activity argues that the more conservative sectors might continue to have an inverse correlation to the market, thus reducing losses or even producing gains. As Callum notes above, these rotations may be more pronounced during sell-offs.

| Relative Performance to SPY | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| # trading days | 10 | 20 | 20 | 20 | 60 | 60 | 60 | |
| Dates: | 03/28/22 - 04/11/22 | 02/28/22 - 03/28/22 | 01/31/22 - 02/28/22 | 01/03/22 - 01/31/22 | 10/11/21 - 01/03/22 | 07/19/21 - 10/11/21 | 04/26/21 - 07/19/21 | YTD |
| Small Caps | -1.17% | -3.00% | 3.99% | -4.87% | -7.62% | 1.77% | -8.94% | -4.27% |
| Mid Cap 400 | -0.57% | -2.46% | 4.08% | -1.72% | -3.35% | 1.75% | -8.59% | -0.91% |
| S&P 500 | -0.01% | -0.06% | 0.06% | -0.03% | 0.07% | -0.05% | 0.04% | -0.01% |
| Small Cap Value | -0.05% | -2.27% | 4.58% | 0.65% | -5.63% | 4.01% | -7.49% | 3.08% |
| Mid Cap Value | -0.10% | -2.01% | 4.29% | 1.10% | -4.05% | 3.29% | -8.60% | 3.30% |
| S&P 500 Value | 2.77% | -1.27% | 1.53% | 3.70% | -3.57% | 0.68% | -2.94% | 6.64% |
| Low Beta [Low Vol.] | 6.13% | 0.09% | 0.49% | 1.98% | 0.54% | -3.08% | 1.31% | 6.98% |
| High Dividend Yield | 2.71% | -1.23% | 1.48% | 4.83% | -2.84% | 0.54% | -2.39% | 7.71% |
| Buyback Achievers | 1.35% | -2.26% | 2.29% | 0.01% | -5.54% | 3.74% | -2.38% | 1.03% |
| Small Cap Growth | -0.41% | -3.41% | 2.65% | -7.33% | -8.60% | -0.26% | -8.07% | -8.28% |
| Mid Cap Growth | -0.98% | -3.02% | 3.95% | -4.50% | -2.58% | -0.30% | -8.45% | -4.85% |
| S&P 500 Growth | -2.69% | 1.15% | -1.47% | -3.29% | 3.21% | -0.57% | 2.77% | -5.92% |
| Mega Cap Growth | -2.95% | 0.71% | -2.32% | -3.77% | 1.50% | -0.66% | 2.27% | -7.53% |
| Momentum | -2.09% | 1.39% | 0.27% | -3.41% | -7.27% | 4.02% | -6.65% | -4.19% |
| High Beta | -3.11% | -2.87% | 4.54% | -1.31% | -2.65% | 7.52% | -7.00% | -1.94% |
| Semiconductors | -10.62% | -1.27% | 1.84% | -7.49% | 15.64% | 1.06% | -5.15% | -15.18% |
| "Disruptive Tech" | -7.26% | -9.25% | -3.62% | -16.41% | -21.92% | -8.29% | -9.94% | -29.36% |
| Equal Weight S&P 500 | 1.54% | -1.67% | 2.06% | 1.37% | -2.92% | 1.57% | -2.83% | 2.84% |
| Emerging Markets | 1.67% | -7.69% | -1.37% | 5.09% | -12.89% | -6.03% | -5.44% | -1.79% |
| Developed Markets | 1.38% | -3.93% | 0.30% | 1.38% | -7.91% | -1.69% | -4.12% | -0.57% |
| EAFE | 1.60% | -4.01% | -0.48% | 1.56% | -8.02% | -1.21% | -4.58% | -0.96% |
| Precious Metals | 6.18% | -5.77% | 9.59% | 8.89% | -10.08% | -9.99% | -4.55% | 16.82% |

Real Investment Advice

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