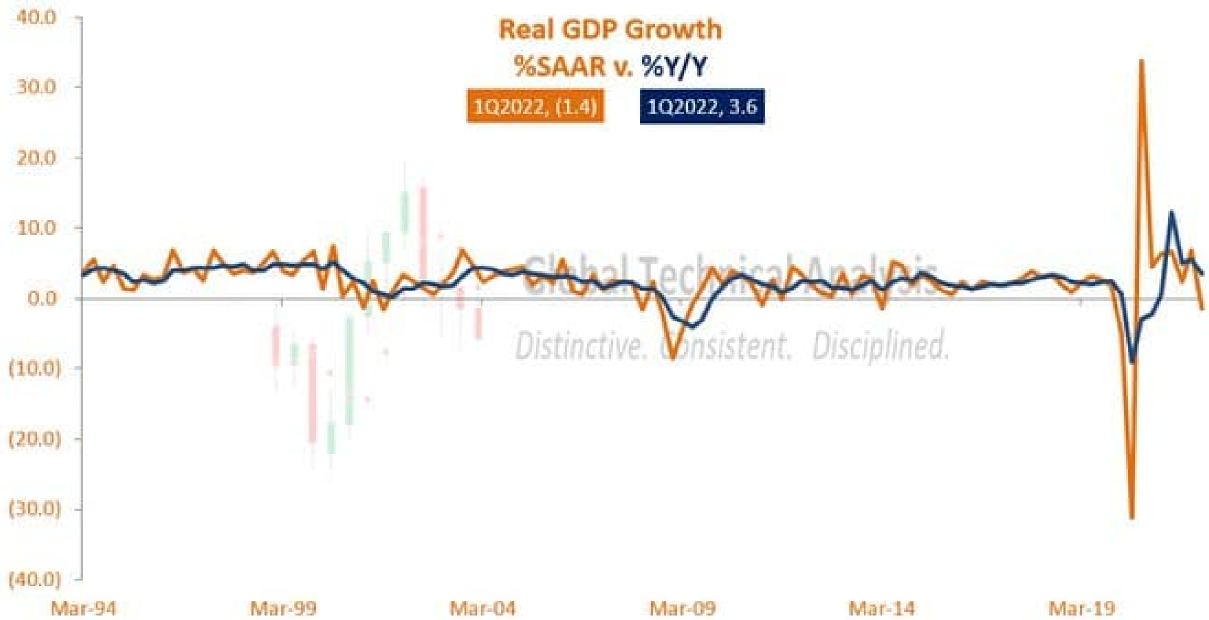
[First-quarter GDP](#) fell by 1.4% versus expectations for a 1.1% increase. As we discussed in [Wednesday's Commentary](#), Wall Street economists are underestimating the slowing of economic activity driven partly by inflation. Only 5 of 69 analysts were expecting a negative GDP number. The culprit appears to be declining real disposable income. While disposable income rose 4.8% annualized in the first quarter, it was well below the GDP Price index of 8% from last year. The price index rose a full percent above last quarter's data and Q1 estimates. Given March's weak trends are still intact in April and the dollar is appreciating rapidly, it is becoming more likely, barring a sudden change in economic activity, the second quarter may also be negative. Two consecutive negative GDP numbers signify a recession.



Market Trading Update - Market Lows Hold, For Now.

Yesterday, the market struggled out of the gate a bit in the morning, but buyers came in with a vengeance after processing the weak Q1 GDP report. Investors quickly jumped on the "deflation trade" with beaten-up technology shares leading the charge. The bounce off the March lows further strengthens that support level for now. Therefore, a break of those lows will be much more meaningful if it occurs in the future.

For now, however, the bottom is likely in for stocks over the next few days with an initial Fibonacci retracement to the 50% level likely which coincides with the 50-dma. A move above that, should it occur, would put the late March highs into focus.

Teflon Tesla Slowly Melts

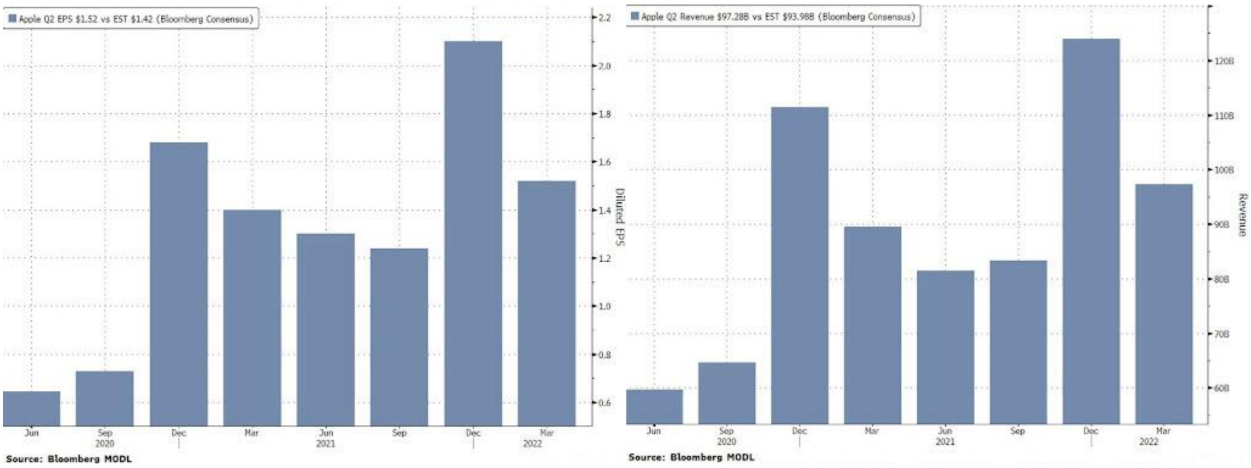
While many meme stocks, "pandemic winners," and high-growth tech stocks have gotten battered over the last year, Tesla shares have held up remarkably well. Until recently, that is. At its recent highs, Tesla's market cap was to every other automaker combined. Tesla has an $865 billion market cap. Ford, for comparison, is only $57 billion.

Since the new year, Tesla has been down 30% and currently trading near the bottom of a wedge pattern. A break below the resistance line portends the possibility of a much steeper decline. Weighing on the stock in recent days is Elon Musk's buyout of Twitter. Musk will be using shares of Tesla as collateral for part of the payment. As such, he risks creating a circular selling program. If Tesla shares fall, he will need to sell shares to bring collateral requirements back to appropriate levels. Musk owns about a fifth of Tesla currently, but between Twitter financing and existing collateralized loans, a large percentage of his shares are encumbered.

Apple Crushes It...Again

After Amazon (AMZN) missed badly *(confirming our concerns of a weakening consumer),* Apple (AAPL) saved the day by crushing earnings and announcing a $90 billion buyback.

- *Apple 2Q EPS $1.52,* ***beating*** *consensus estimates of $1.42*
- *Apple 2Q Rev. $97.3B, +8.6% Y/Y,* ***smashing*** *consensus estimates of $93.98B*
- *IPhone revenue $50.57 billion, +5.5% y/y,* ***beating*** *estimate $49.16 billion*
- *Mac revenue $10.44 billion, +15% y/y,* ***beating*** *estimate $9.23 billion*
- *IPad revenue $7.65 billion, -2.1% y/y,* ***beating*** *estimate $7.19 billion*
- *Wearables, home and accessories $8.81 billion, +12% y/y,* ***missing*** *estimates $8.98 billion*
- *Service revenue $19.82 billion, +17% y/y,* ***beating*** *estimates $19.78 billion*
- *Greater China rev. $18.34 billion, +3.5% y/y*
- *Gross margin $42.56 billion, +12% y/y*
- *Cash and cash equivalents $28.10 billion, -27% y/y, estimate $35.81 billion*

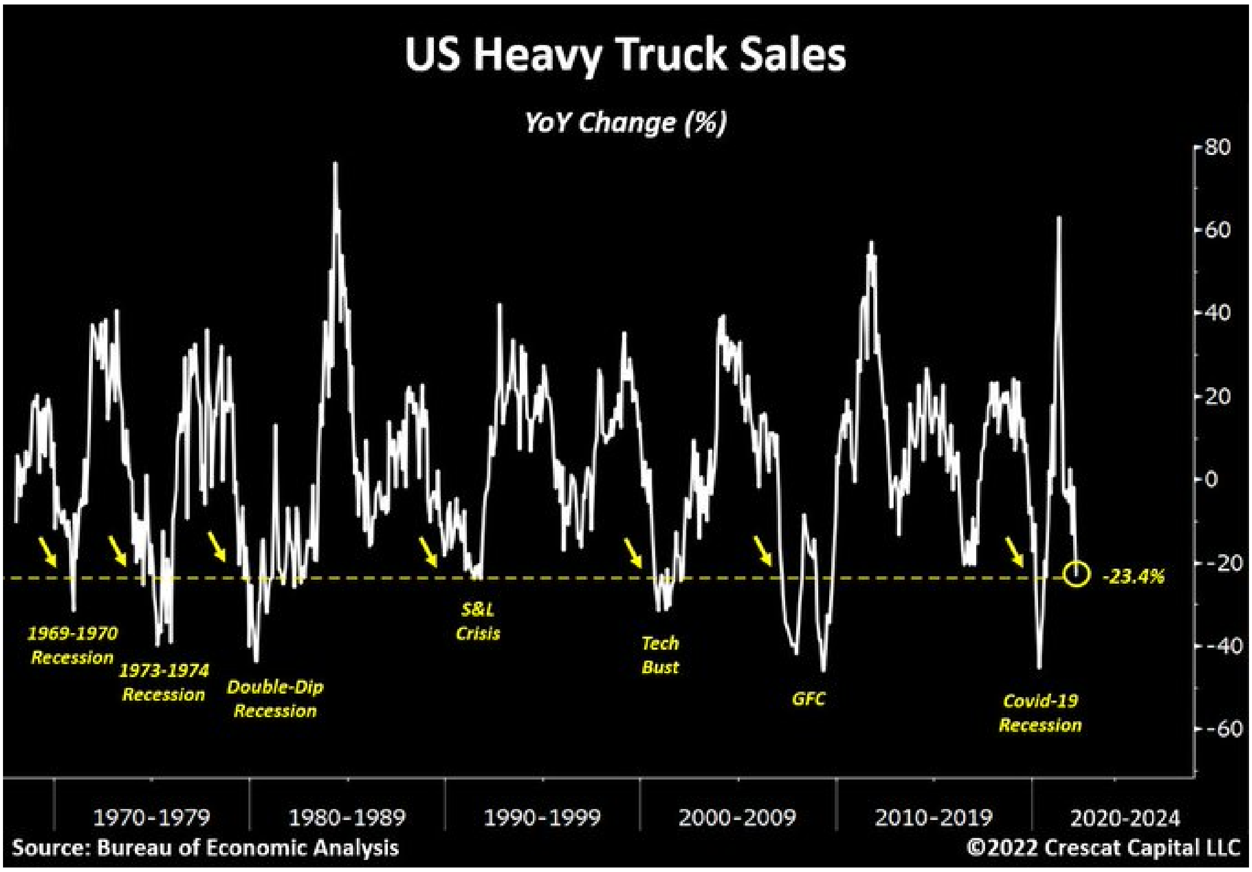


Courtesy of Zerohedge

Despite the strong earnings report, forward guidance was weak pulling the stock down in premarket trading. Amazon and Apple together are pulling the Nasdaq down a bit more than 1% this morning.

Heavy Truck Sales Warn of Coming Recession

The graph below from Tavi Costa shows that steep declines in heavy truck sales correspond well with recessions since at least 1967. Year over year, heavy truck sales are down 23%. We do caution that the sharp decline in sales due to covid and then steep increase from the recovery will mathematically create volatility as sales normalize.



More On the Dollar

In Thursday's commentary, we wrote about recent dollar strength and trading range. We also shared the pros (lesser inflation) and the cons (more imports and fewer exports) of a stronger dollar. There is another drawback of a stronger dollar worth discussing. The dollar is the world's reserve currency, in part because it has the most liquid capital markets. To take advantage of the superior liquidity offered in dollar-denominated securities, many foreign countries and companies borrow in dollars. The Bank of International Settlements (BIS) estimates that as of 2020, there is about $12.6 trillion in dollar-denominated debt borrowed by entities outside the U.S.

In many cases, those borrowing in U.S> dollars convert the dollars to their home currency. At maturity, they convert the home currency back to dollars to pay the loan/debt off. If the borrower hedged the currency risk, the conversion for principal and interest payments should not be a problem. However, those that do not hedge are exposed to currency risk. As the graph shows, the dollar index is up over 5% in April. The cost of debt for unhedged borrowers effectively rose by 5%. **Continued dollar appreciation is de facto monetary tightening**. It will weigh on global economic activity and reduce financial liquidity. It will not surprise us if the Treasury/Fed and other foreign governments take action to arrest dollar appreciation.

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