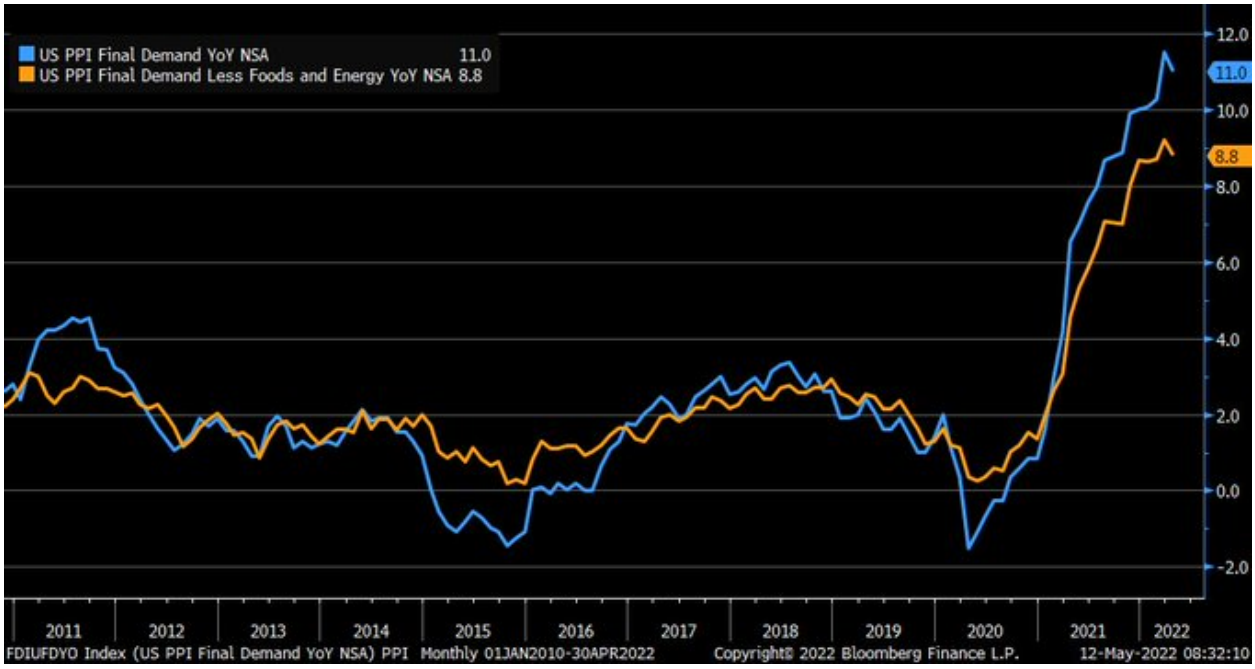
Producer prices (PPI) for April met expectations rising .5%. While .5% is a big monthly increase, it pales compared to March's +1.6% PPI. Core PPI, excluding food and energy, rose 0.4%, well below expectations for +0.8%. Inflation is still running hot, but PPI and CPI show the momentum of price changes might have peaked.

PPI data was generally lower than expectations, while CPI was higher. Forming expectations given the wild volatility in prices and supply line problems is challenging. Given the circumstances, beating or missing expectations by .1 or .2% is meaningless. What really matters is the trend. Is the trend for CPI and PPI starting to decline? One month does not make a trend, but this week's inflation data, combined with weakening economic activity and much higher interest rates, leaves us hopeful.



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What To Watch Today

Economy

- 8:30 a.m. ET: **Import Price Index**, month-over-month, April (0.6% expected, 2.6% in March)
- 8:30 a.m. ET: **Import Price Index**, year-over-year, April (12.2% expected, 12.5% in March)
- 8:30 a.m. ET: **Export Price Index**, month-over-month, April (0.7% expected, 4.5% in March)
- 8:30 a.m. ET: **Export Price Index**, year-over-year, April (18.8% in March)
- 10:00 a.m. ET: **University of Michigan sentiment**, May preliminary (64.0 expected, 65.2 in April)

Earnings

- *No notable reports are scheduled for release*

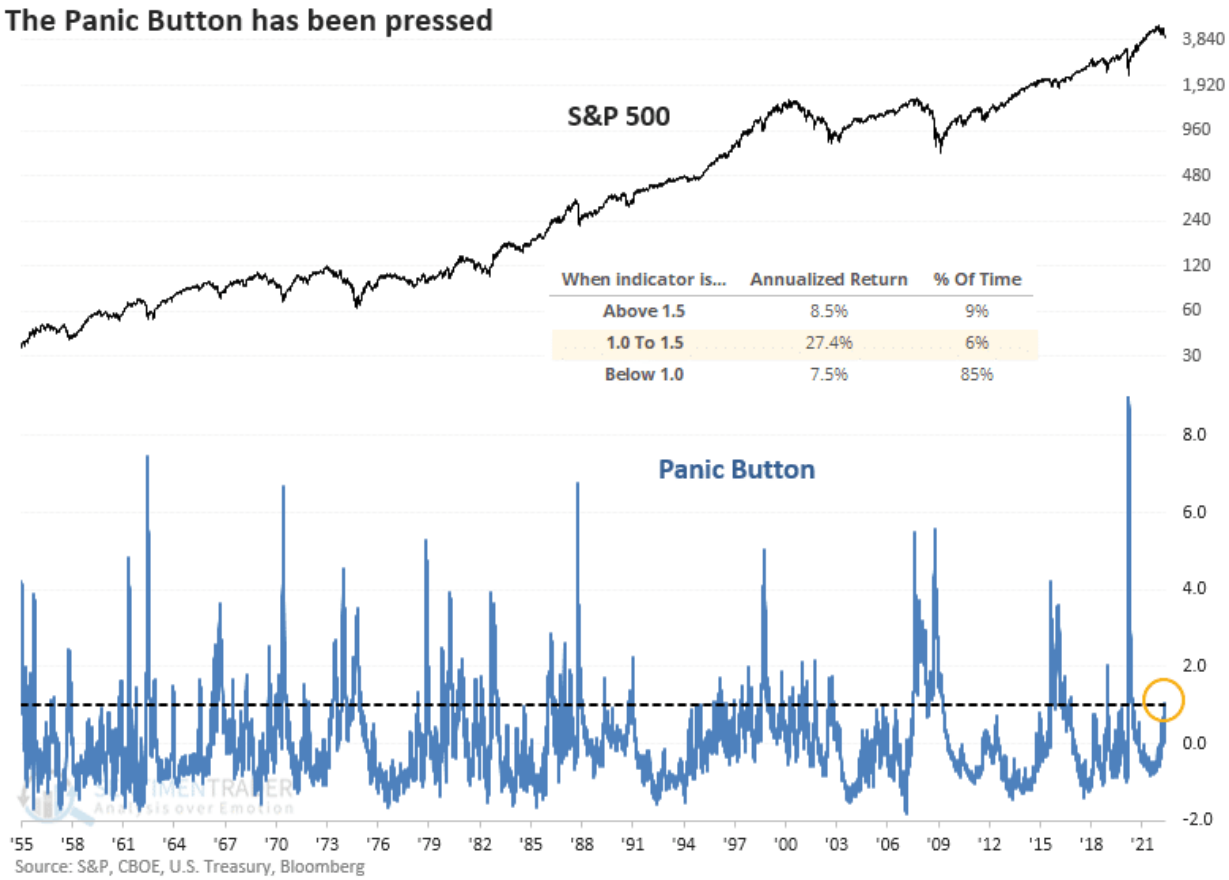
Market Trading Update - The Selling Continues

No relief for traders through Thursday as the selling continued unabated. As noted yesterday, the market did bounce off the extreme of 3-standard deviations below the 50-dma and closed about where the market finished yesterday at the 138% Fibonacci retracement level. With inflation data, earnings, and the Fed behind us for now, I would not be surprised to finally see a bit of a relief rally. However, even if we do, there are MANY investors caught on the wrong side of this market, so any rally will likely be met with more selling. We continue to suggest using any rally to reduce risk and rebalance portfolios.



Panic Button Getting Pressed

> *"This week, investors truly started to panic. In March, despite losses in stocks, credit conditions were relatively calm.* ***The biggest panics - not grinding bear markets, but actual panics - always see wholesale selling pressure in credit markets.***
>
> *That is starting to change, and the Panic Button has been pressed. It has risen above 1.0 for the first time in almost two years." - Sentiment Trader*



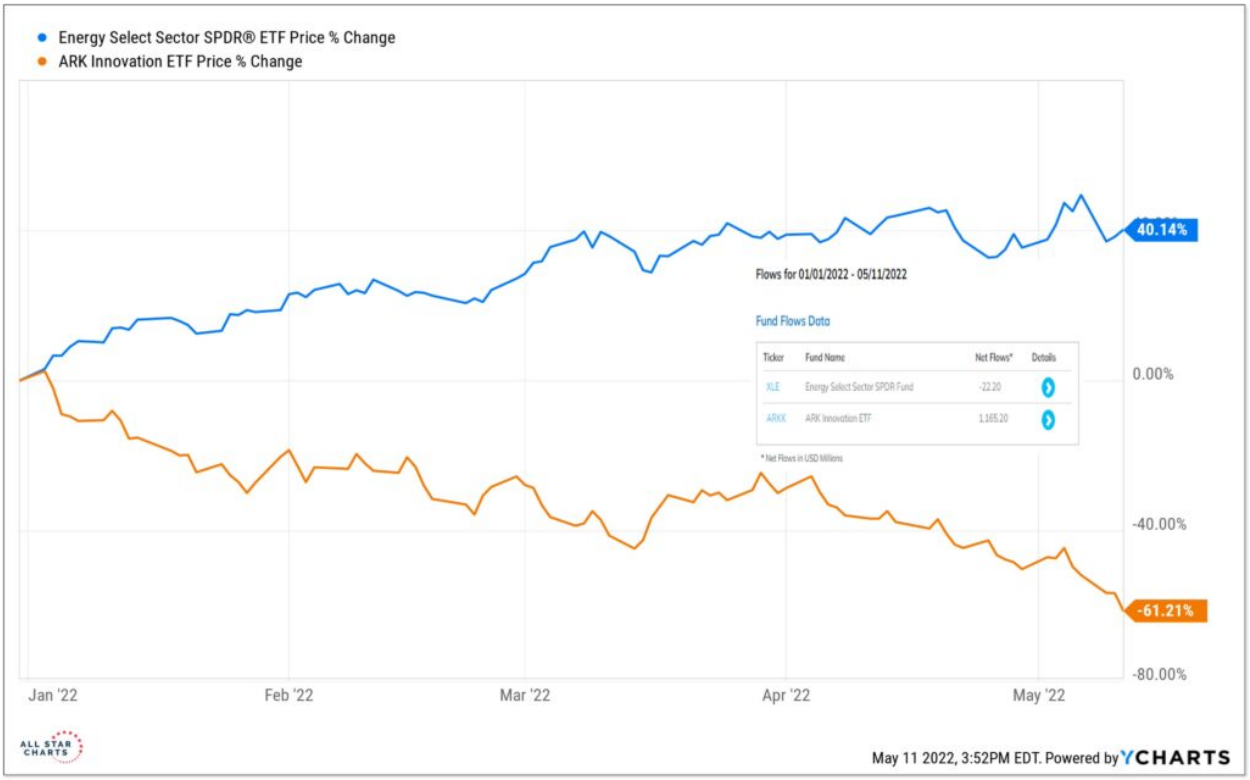
Seasonality Argues Bond Yields Might Have Peaked

The graph below from Sentimentrader shows that bond prices typically perform poorly until the 90th trading day of the year. May 10th was the 90th trading day. After the 90th day, they tend to rise. This year has been no exception, with bond prices plummeting from January to April. Recently bond prices have ticked up right on schedule. Might the graph below accurately portray the trend of bonds for the year? Also of interest, if the direction does turn up, was it Wednesday's CPI report that might have shown a peak in inflation that is the culprit?



ARKK vs. Energy

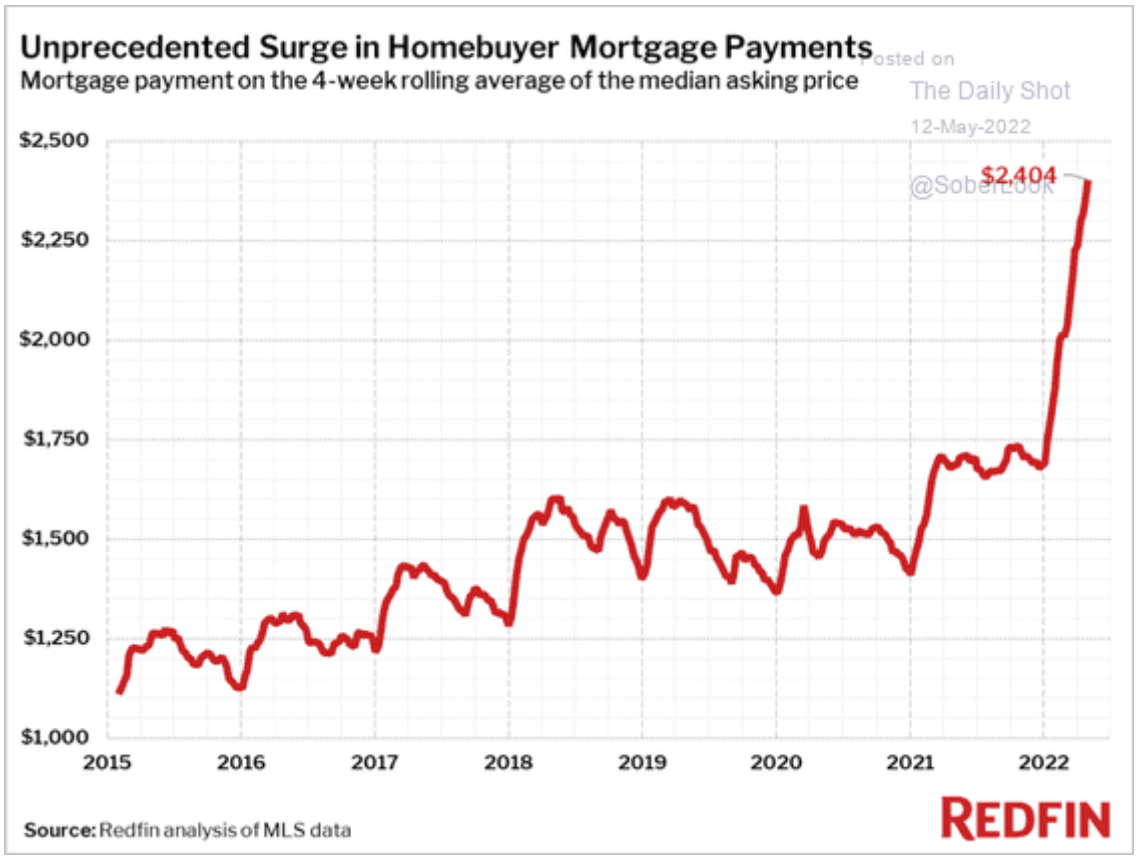
The ARKK Innovation ETF, managed by Cathie Wood, has been in the financial media limelight. Shares of ARKK have gotten crushed, down over 60% year to date. At the same time, the energy sector has been on fire, up over 40% year to date. One would think that investors would follow the returns and move from funds like ARKK to the energy sector. The graph below shows that is not happening. The two lines show the stunning differential in 2022 performance. The box shows XLE has experienced a slight outflow of funds, while over $1.1 billion has moved into ARKK.



What Are Homebuilders Drinking?

Sharply higher mortgage rates have radically changed the purchasing power of many potential homebuyers. For example, the first graph below from Redfin shows the average mortgage payment on a median-priced house has risen from approximately $1,650 to $2,400 in just four months. At the same time, house prices continue higher, making the plight of the homebuyer even more difficult.

The second graph below shows these concerns are weighing on homebuyer sentiment. Homebuyer sentiment is now way below any level seen since at least 1990, including 2007/08. Despite the horrendous sentiment, homebuilders' sentiment is at 30-year highs. Something has to give, and barring a sharp drop in mortgage rates, it appears homebuilder sentiment is due for a steep decline. If so, reduced home construction will weigh on the economy. We will closely follow Housing Starts and Building Permits over the next few months to see if homebuilders start to slow their activity.





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