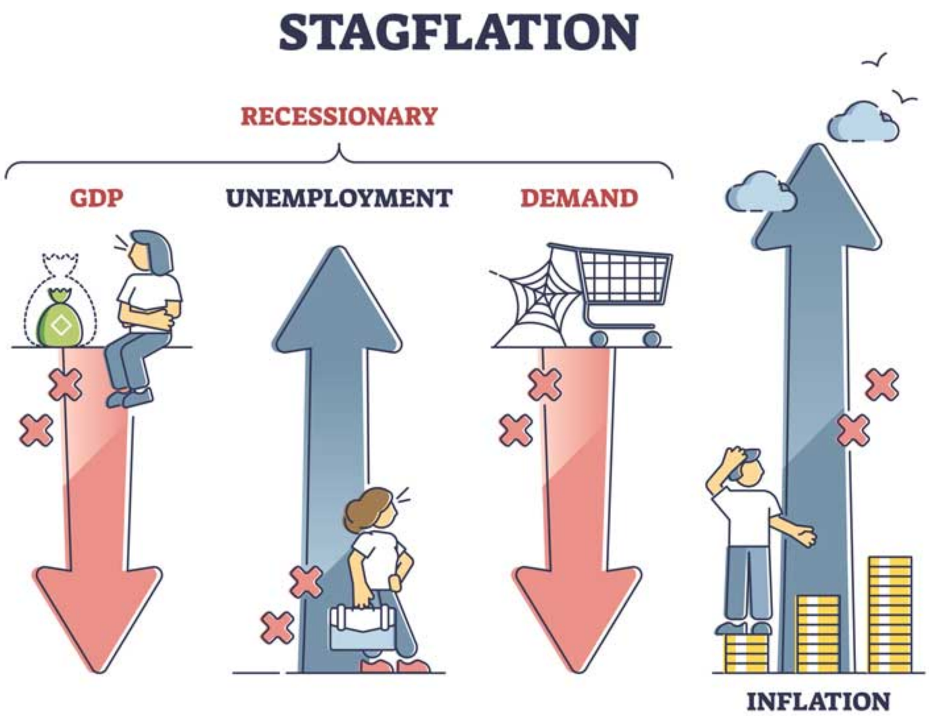
The World Bank is out with a stern warning that the global economy may be in for a bout of stagflation. In Stagflation Risk Rise Amid Sharp Slowdown in Growth, the World Bank cut its annual economic growth forecast to 2.9% from 4.1%. More discouraging, the World Bank now expects "*subdued growth*" to persist through the decade. David Malpass, an economist with the World Bank, says we might see zero global growth for the next couple of years in the worst-case scenario. For U.S. investors, the only silver lining in the World Bank's message is that the more significant concerns are outside of the U.S.

> *The Compounding the damage from the COVID-19 pandemic, the Russian invasion of Ukraine has magnified the slowdown in the global economy, which is entering what could become a protracted period of feeble growth and elevated inflation, according to the World Bank?s latest* ***Global Economic Prospects*** *report. This raises the risk of stagflation, with potentially harmful consequences for middle- and low-income economies alike.* - World Bank Report






## What To Watch Today

### Economy

- **Initial Jobless Claims**, week ended June 4 (200,000 prior)
- **Continuing Claims**, week ended May 28 (1.309 million prior)
- **Household Change in Net Worth**, Q1

**Earnings**

**Pre-market**

- No notable reports are set for release.

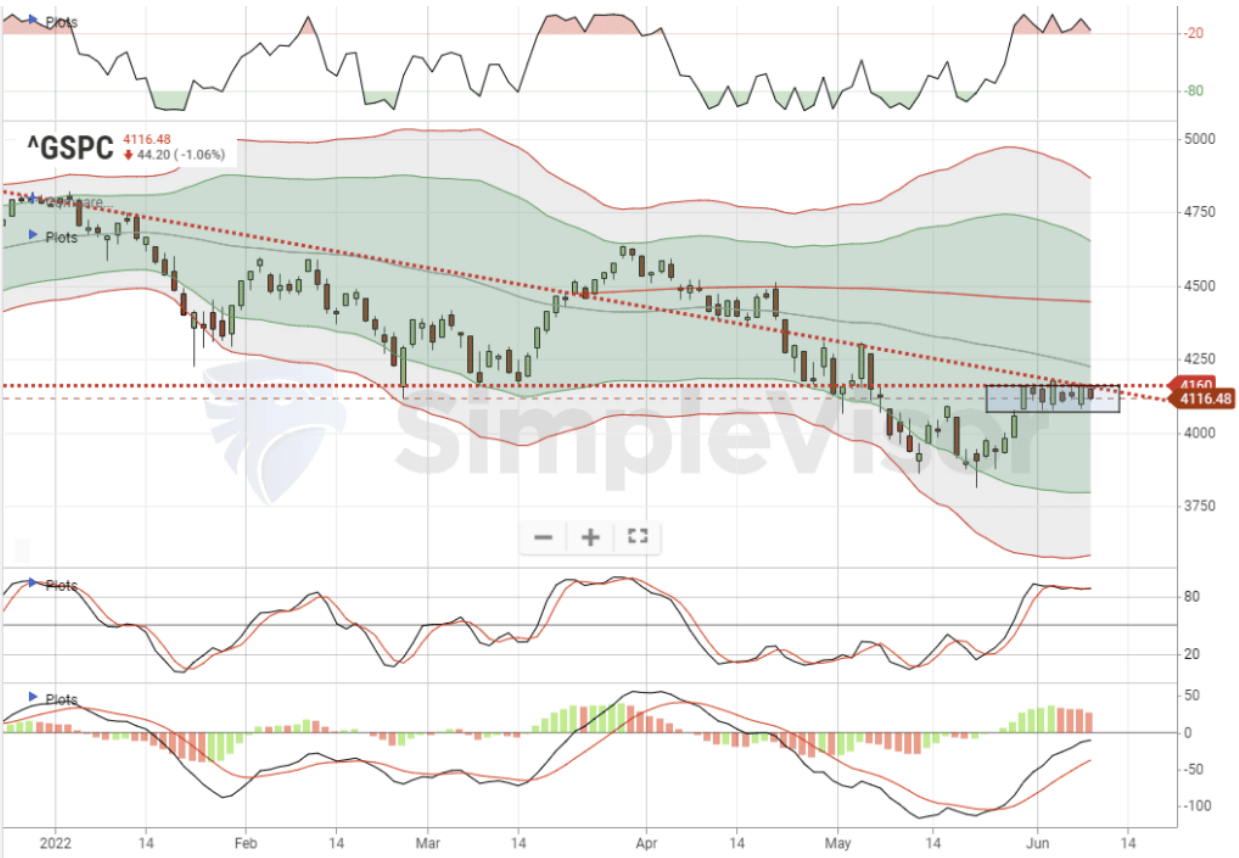
?**Post-market**

- **DocuSign** (DOCU) to report adjusted earnings of 46 cents on revenue of $581.78 million
- **Stitch Fix** (SFIX) to report adjusted losses of 53 cents on revenue of $492.71 million
- **Rent the Runway** (RENT) to report adjusted losses of 73 cents on revenue of $64.15 million

## Market Trading Update - Market Pukes On SEC Announcement

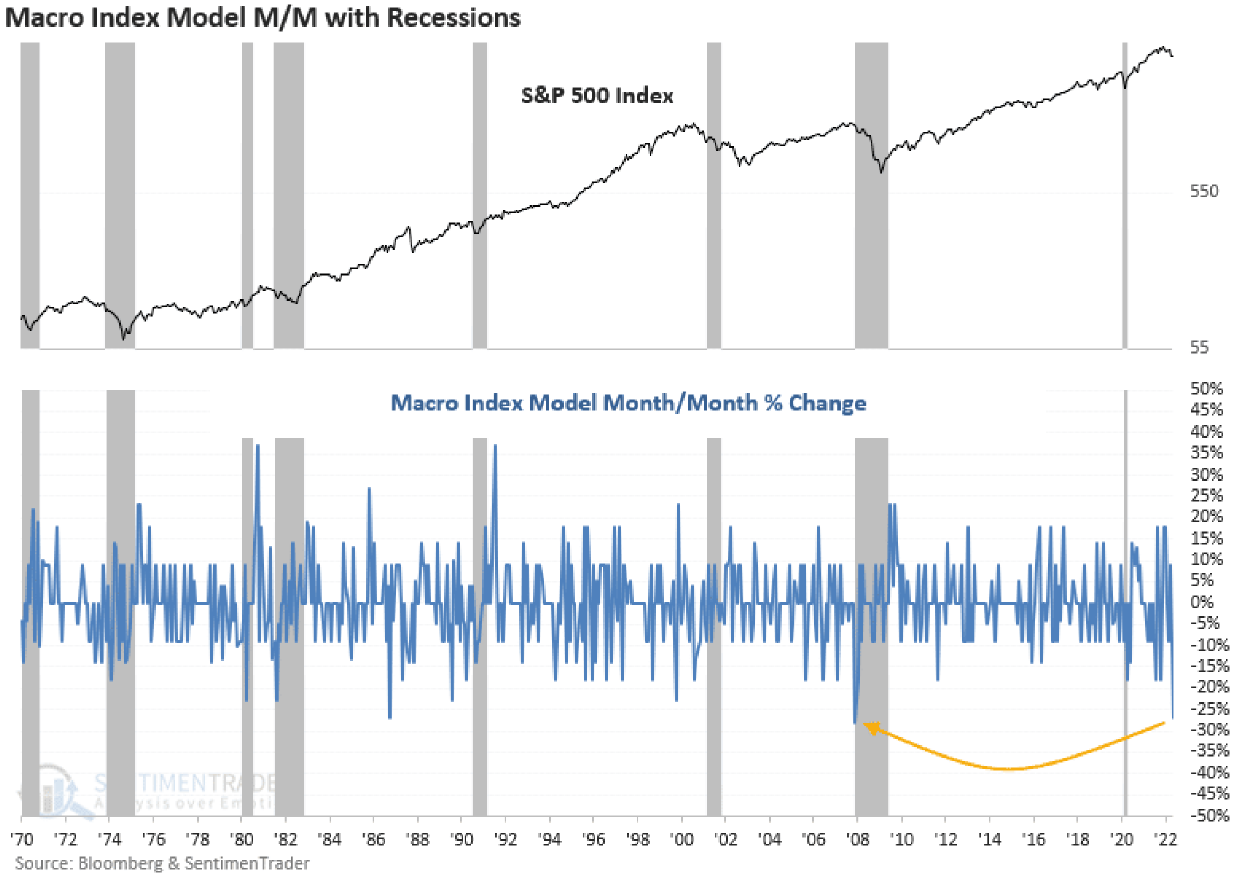
Yesterday, the market puked after the head of the SEC, Gary Gensler, discussed a market change for trading that would *"level the playing field"* for retail investors. The reason the market didn't like it is an *"auction market"* system would eliminate ***"Payment for Order Flow,"*** making RobinHood (HOOD) worth exactly ZERO, and eliminating the *"front running"* of retail traders. However, without payment for order flow, firms will have to go back to charging a ***"transaction tax,"*** which is actually a good thing.

The market remains rangebound and continues to fail at the downtrend line. As noted yesterday, we have raised more cash and started to build a short-market hedge.




## The Economy Hasn't Done This Since The Financial Crisis

*"The SentimenTrader **Macro Index Model** combines 11 diverse economic indicators to determine the state of the U.S. economy right now. The Index plunged by the 2nd most significant amount in history, with data reporting in May. Powerful m/m contractions occurred just before recessions in 1981-82 and 2007-08. In some instances, like in 1990-91 and 2001, the plunge occurred well ahead of an economic downturn. And 1986 is a reminder that not all significant declines are associated with a recession." - Sentiment Trader*



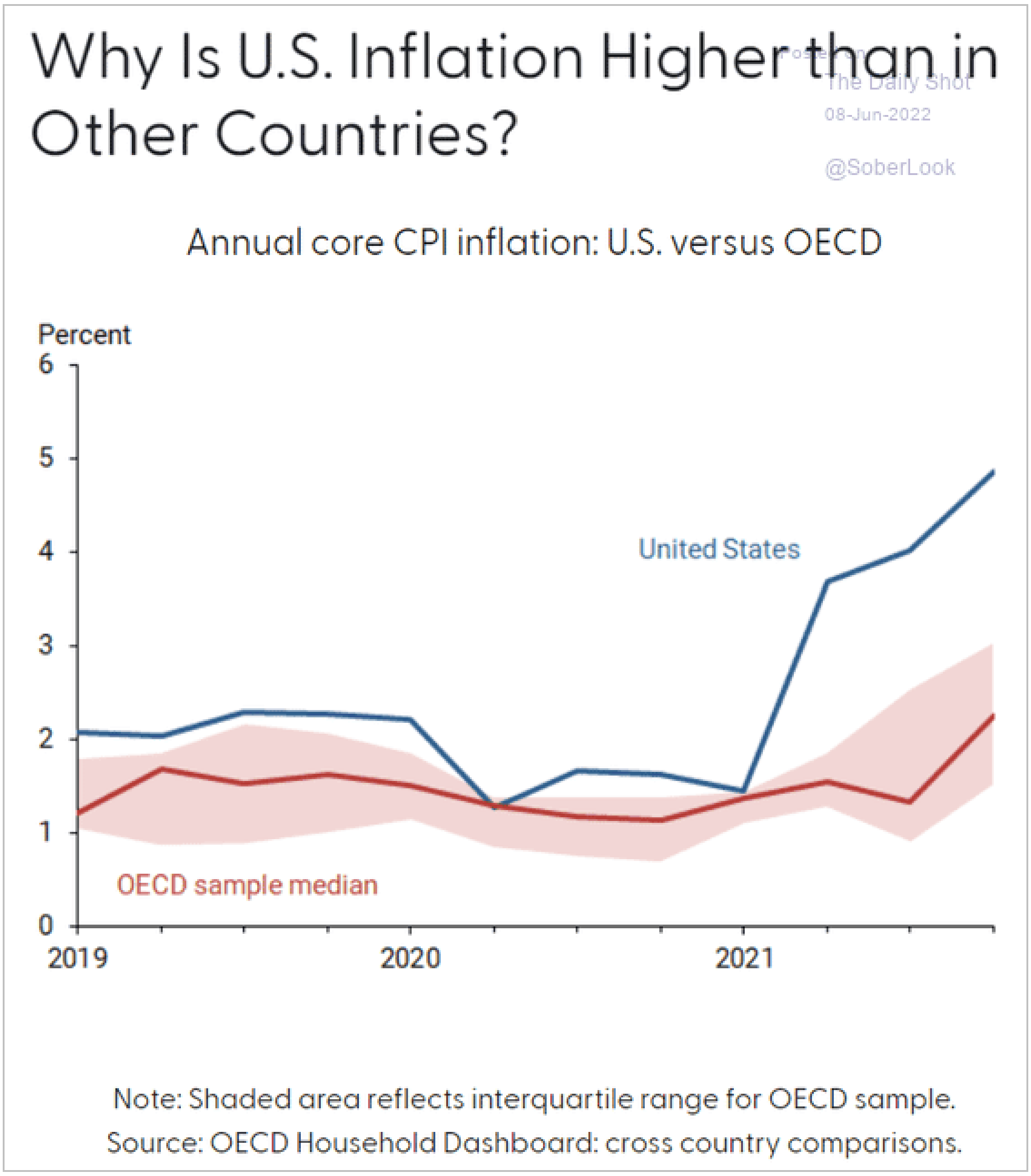

## Janet Yellen - Forever Wrong Or Just Stupid

While the World Bank is out with a stern warning; Janet Yellen, Secretary of the Treasury, was recently asked about inflation. Her response was wrong.

Her claim was that Biden's American Rescue Plan did not cause inflation in the U.S. because inflation was happening everywhere.

First of all, yes, the trillions injected into a shut-down economy, created a supply-demand imbalance causing inflation. That's basic economics, which she should know.

Secondly, YES, there is inflation elsewhere in the world because the U.S. is causing it. Our $20 Trillion economy imports goods and services from countries like Germany, France, Spain, etc. which are magnitudes smaller than the U.S. However, that demand on their economies, which were also shut down, created inflation in those countries but not nearly to the magnitude as seen in the U.S.



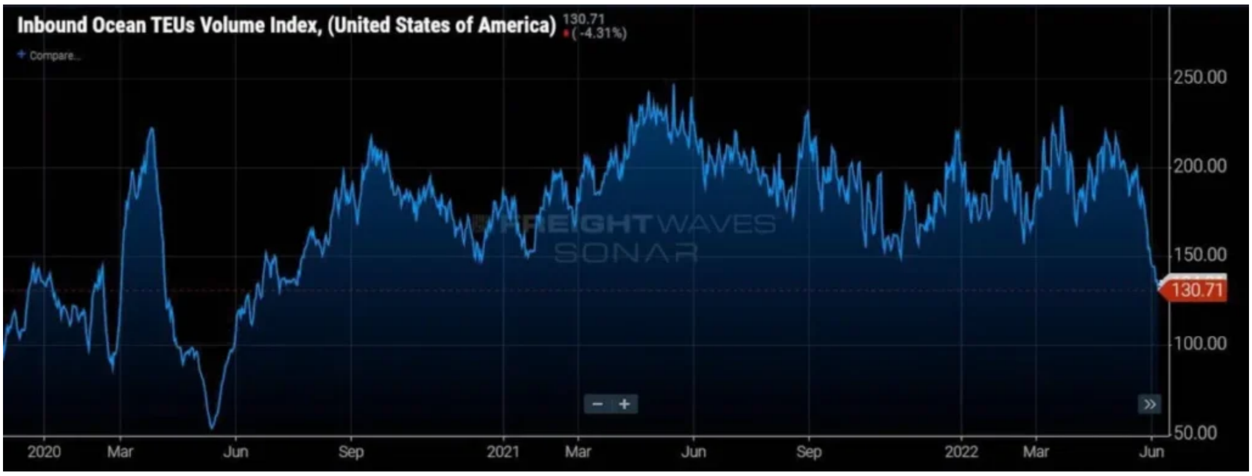

## Supply Chains Easing Rapidly

In its latest article, Freight Waves, "*the nerve center of the global supply chain*," warns that [U.S. Import demand is dropping off a cliff](). Per the article:

> *The latest ocean container bookings data reveals that despite the strong levels of inbound cargo during the first five months of 2022, import demand is not just softening ? it?s dropping off a cliff.*
>
> *Because capacity on the trans-Pacific has remained relatively stable, Drewry?s container spot rates from China to the West Coast have plunged 41% month-over-month to $9,630.*
>
> *Consumer buying patterns are rapidly normalizing to pre-COVID levels, and U.S. retailers are stuck with too much inventory. Container imports bound for the U.S. have dropped over 36% since May 24. (This index measures departing container volumes at the port of origin). This is a troubling sign for domestic U.S. freight markets that have*

*been benefiting from an unprecedented surge of containerized import volumes over the last 18 months.*

The graph below from the article shows the sharp decline in inbound ocean container ships for the U.S. The economy may likely be weakening more severely than most economists and the Fed appreciate. It will take another month or two for more traditional economic data points to confirm if this thesis is correct. Notably, a weakening economy and normalizing supply chains should ease inflation.




## Target And Walmart Have TOO Much Stuff

*"America's biggest retailers have a new problem ?* ***too much stuff****.*

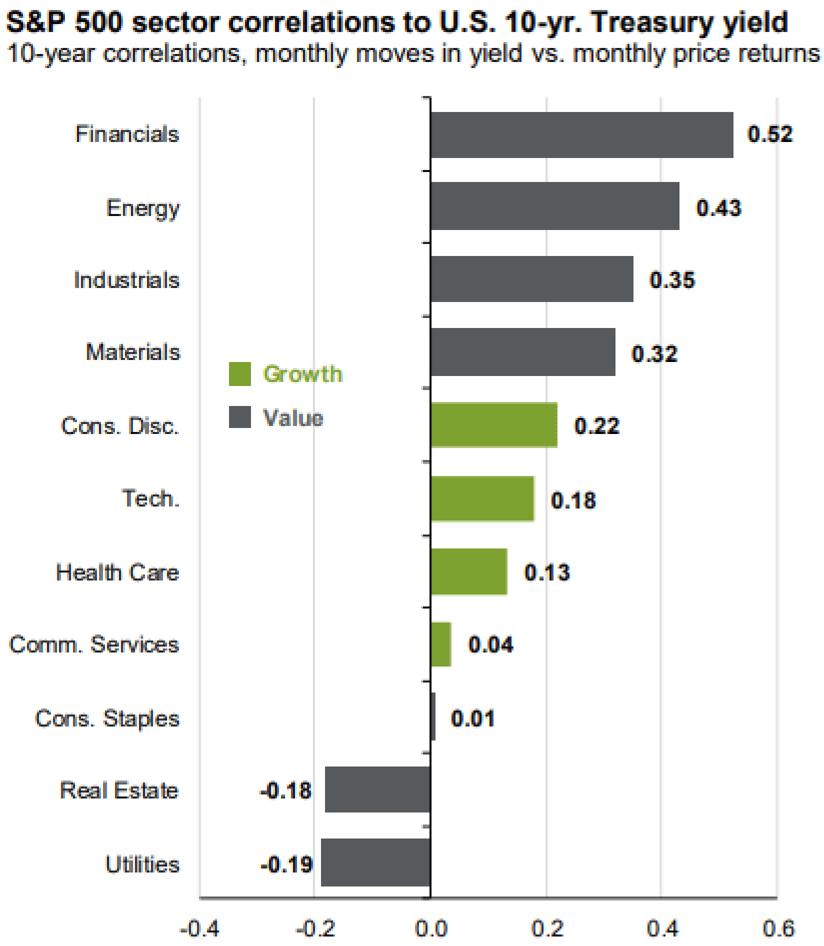
***Target announced yesterday*** *that it was basically holding a lot of stuff that no-one wanted anymore. The inventory on its balance sheet had grown substantially over this time last year (up* ***43%****). Large appliances, furniture and comfy clothing are all out. Consumers reportedly are switching purchases towards travel, cosmetics and clothes-that-aren't-sweatpants.*

***The only real way to shift huge volumes of merchandise that aren't in demand is to discount it.*** *That process that will eat into its margins for the coming quarter." - Chartr*


## What Stocks Work with Falling Yields?

After reading the last two sections, you may wonder what I should invest in if normalizing supply lines and weakening economic growth reduce inflation appreciably and ultimately result in lower bond yields. What sectors correlate well with bond yields?

The graph below helps us appreciate that Financials, Energy, and Industrials, are positively correlated with yields. Higher yields should benefit the stock prices of those companies. Ergo, lower yields should provide a headwind. Utilities and Realestate have a small but negative correlation with bond yields. Thus lower yields should be beneficial to their stock prices. Also, note that growth stocks have a weak but positive correlation with yields.




---

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

*If you found this blog useful, please send it to someone else, share it on social media, or contact us to set up a meeting.*