

In [Thursday's Commentary](#), we share the World Bank's warning about global stagflation. We follow up the World Bank's dour economic outlook with another concerning forecast by the CNBC CFO Council Survey. 100% of CFOs surveyed by CNBC expect a recession by next year. Per the [article](#) :

*No CFO forecast a recession any later than the second half of next year, **and no CFO thinks the economy will avoid a recession.***

40% of the CFOs surveyed think inflation is the number risk to their business. Further, almost a quarter of them cite the Fed and question its ability to manage inflation as the most significant risk they face. Regardless of whether the CFOs prove correct or not is less important.

Worth considering is that if CFOs think a recession is probable, they will run their businesses in a more conservative manner. Such may mean lower inventories, reduced head counts, and other measures that will weigh on economic activity. These actions by CFOs can make their forecast turn into reality.

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What To Watch Today

Economy

- 8:30 a.m. ET: **Consumer Price Index**, month-over-month, May (0.7% expected, 0.3% prior)
- 8:30 a.m. ET: **Core CPI**, month-over-month, May (0.5% expected, 0.6% prior)
- 8:30 a.m. ET: **Consumer Price Index**, year-over-year, May (8.3% expected, 8.3% prior)
- 8:30 a.m. ET: **Core CPI**, year-over-year, May (5.9% expected, 6.2% prior)
- 8:30 a.m. ET: **Real Average Hourly Earnings**, year-over-year, May (-2.6% prior)
- 8:30 a.m. ET: **Real Average Weekly Earnings**, year-over-year, May (-3.4% prior)
- 10:00 a.m. ET: **University of Michigan Sentiment**, June preliminary (58.7 expected, 58.4 prior)
- 2:00 p.m. ET: **Monthly Budget Statement**, May (\$308.2 billion prior)

?Earnings

Pre-market

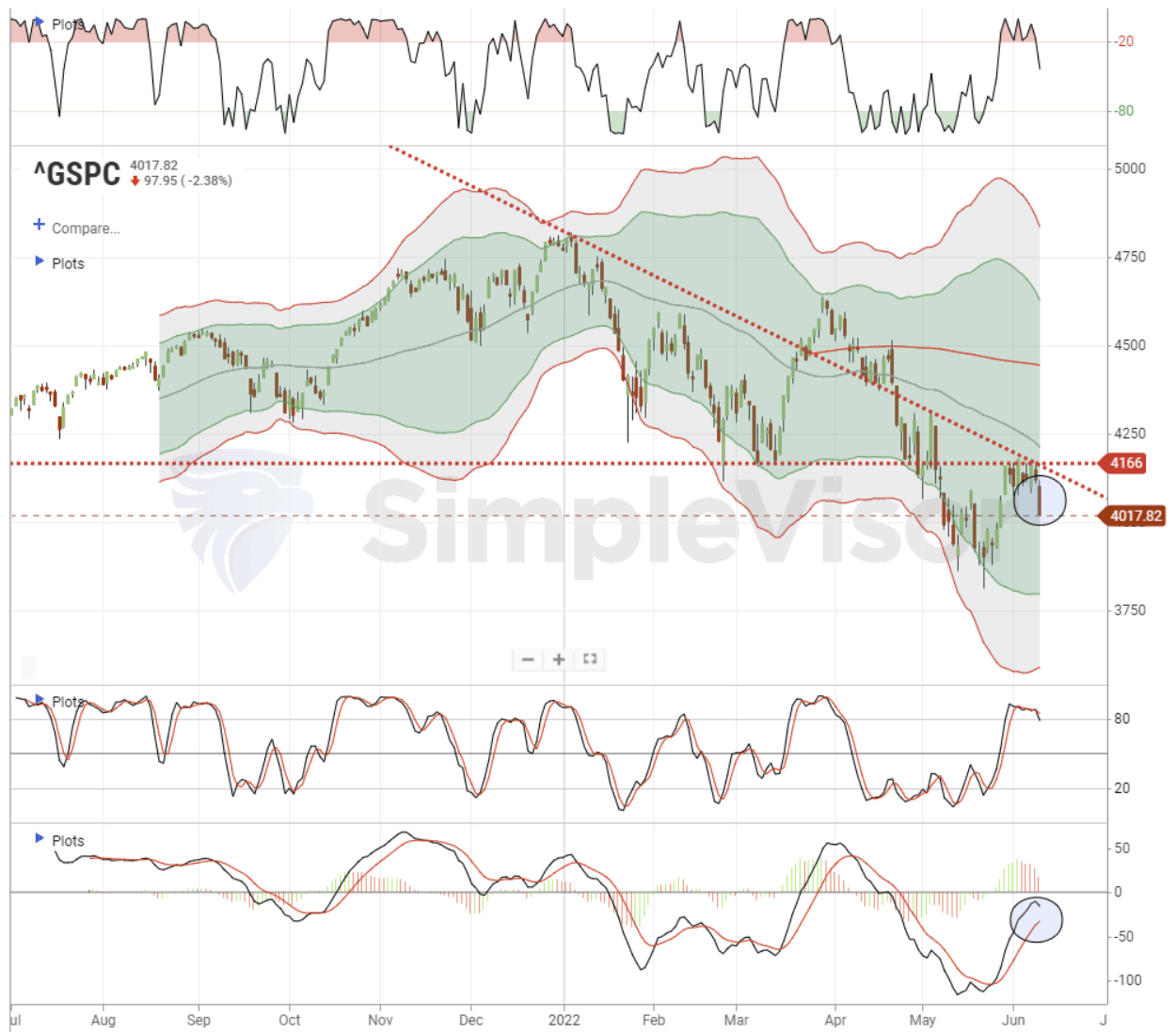
- No notable companies are set to report earnings.

Post-market

- No notable companies are set to report earnings.

Market Trading Update - Rally Officially Fails

Over the last couple of days, we discussed the very tight trading range the market was in. Yesterday, that consolidation failed as the market broke below support and fell over 2% for the day. Such as sparked by continued Fed hawkishness on rate hikes and balance sheet tapering against a backdrop of rapidly deteriorating economic data. It is now a race between the Fed rate hikes and the onset of a recession. After raising additional cash and adding a short hedge we will use any rallies to build out hedges further.

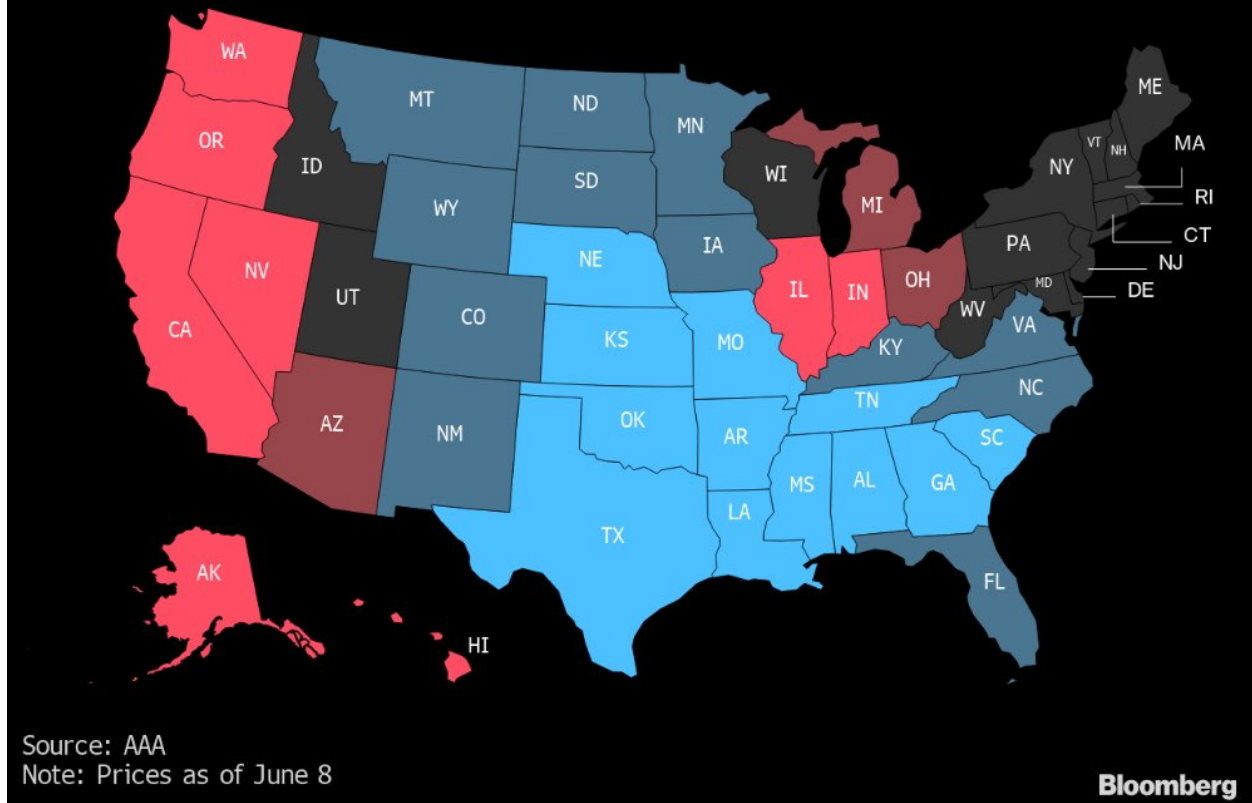


\$5 Gas is Here

The Bloomberg illustration below shows that most of the nation is paying \$5 or more for a gallon of gas. The average is now just shy of \$5 at \$4.96. Per AAA, California has the average highest price per gallon at \$6.39

Price Surge

National average for a gallon of regular gasoline hits a record \$4.96



Consumers Are In Trouble

Inflation rising quicker than wages is spelling trouble for many consumers. We recently wrote in [The Consumer is Getting Squeezed](#):

"Consumers are being squeezed by negative real wage growth and inflation at 40-year highs. As a result, consumer sentiment is declining, and personal consumption habits are changing as people struggle to help make ends meet."

The article analyzes a series of graphs showing that consumer sentiment is poor due to negative real wage growth. As a result, they are increasingly relying on savings and credit cards to make ends meet. After publishing the article, we stumbled upon another graph that further highlights the consumer's plight. As the graph from the Atlanta Fed shows, not only are consumers struggling to pay for higher food and gas prices, but housing costs now account for almost 7-10% more of their income than they had over the last decade. *"70% of the economy is tied to the fate of the consumer."* Is it any wonder that the CFOs and World Bank are tooting their recession horns?

Share of income needed to cover housing costs



Source: Federal Reserve Bank of Atlanta

The Old Adage Holds True

There is an old adage that you buy the stocks that get kicked out of indexes because they tend to do better. Such is the case with the recent changes in the Dow Jones Industrial Average.

"The Dow ? which is the world's oldest actively managed index ? kicked out ExxonMobil nearly two years ago, along with Pfizer (PFE) and Raytheon Technologies (RTX). The Dow committee's August 2020 move was the biggest reshuffle since Apple (AAPL) replaced AT&T (T) back in 2015.

? In the place of XOM, RTX and PFE, index manager S&P Global popped in Salesforce.com (CRM), Amgen (AMGN), and Honeywell (HON).

The problem? Only Honeywell stock has made a profit for investors ? gaining 16% ? since that switch out. In 2022, Salesforce has sunk 26% and Honeywell has dropped 7%. It comes as little consolation for the index that Amgen shares are up 9% this year.

Meanwhile, XOM has gained 157% since being booted, and up 781% this year alone.

Since being removed from the Dow, Raytheon shares are up 59% while Pfizer has gained 49%. These stocks are up 15% and down 9% this year, respectively.

Put it all together, and the Dow would have been better off had the index managers simply sat on their hands." - Yahoo Finance

DOW RETURNS WOULD BE BETTER WITHOUT LATEST RESHUFFLE

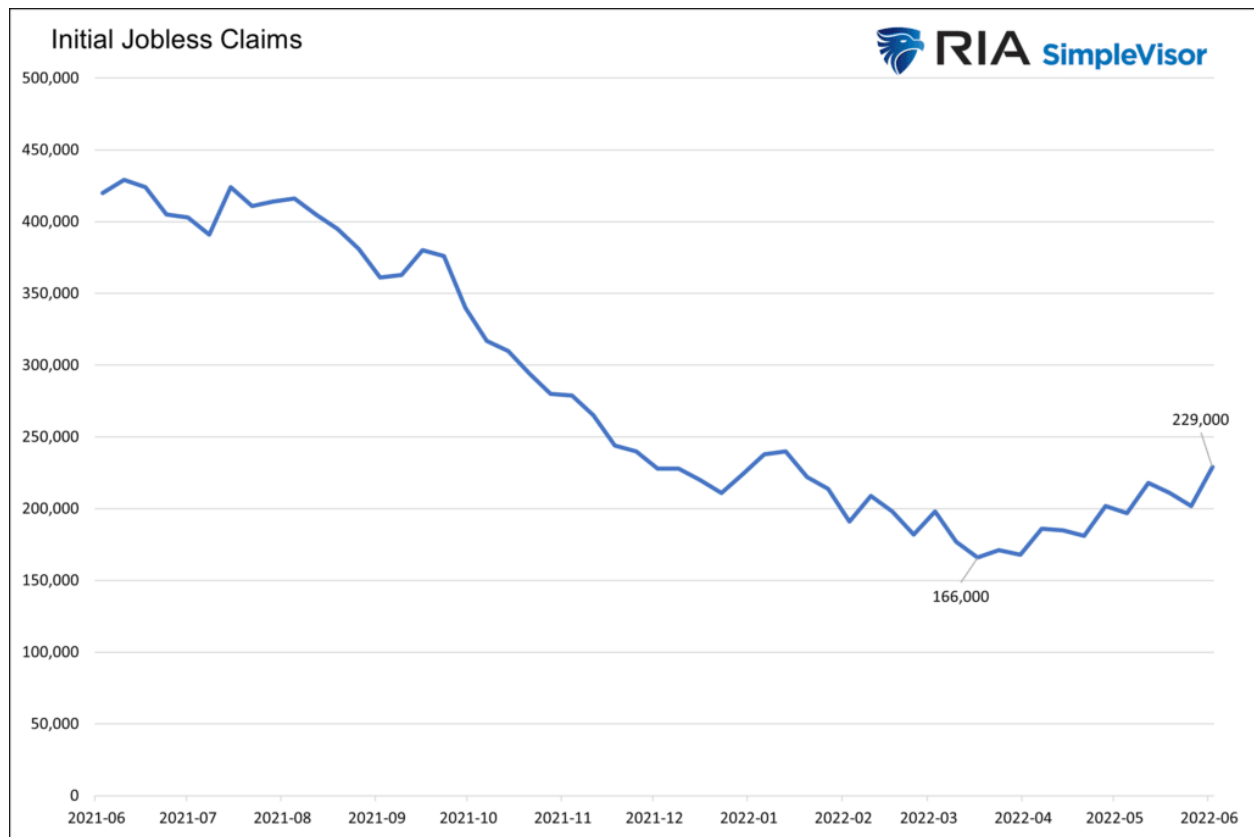
Ticker	Return from Aug. 2020	YTD Return
Added as of 8/31/2020		
Honeywell (HON)	15.2%	-6.7%
Amgen (AMGN)	-3.0%	9.1%
Salesforce (CRM)	-30.2%	-25.6%
Removed as of 8/31/2020		
ExxonMobil (XOM)	157.1%	70.9%
Raytheon Tech (RTX)	59.4%	15.3%
Pfizer (PFE)	48.8%	-9.5%
Dow (Current)	14.9%	-9.4%
Dow (Old)	20.5%	-7.9%
Difference (ppts)	5.6%	1.6%

SOURCE: YAHOO FINANCE

yahoo!
finance

Jobless Claims Trending Higher

Initial jobless claims rose to 229k last week, continuing a trend higher over the last three months. While the trend may be concerning, the number of jobless claims remains very low. Since 1967, only 9% of the weekly claims numbers have been below the current number. The pre-pandemic average is 350k. We suspect jobless claims, traditionally a leading indicator of the labor market, may not be as effective this time. Simply, many companies are or were recently struggling to find qualified employees. Even though their businesses may be slowing down a little, in many cases, they may be lax in firing employees and face the daunting task of rehiring in the future.



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