Weekly Wire

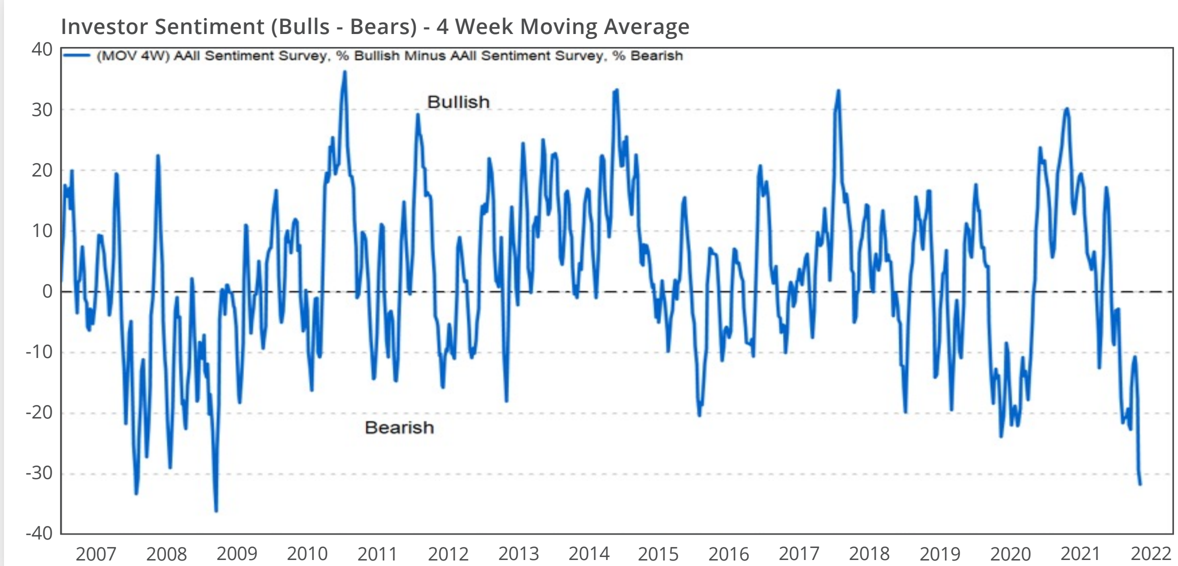
MAY 16, 2022

Twin Peaks?

Some of us recall David Lynch's groundbreaking television series Twin Peaks, which premiered on ABC on April 8, 1990, and ran for two seasons until its cancellation in 1991. Though the series was short-lived, it has achieved cult-like status due to its innovative mix of mystery, horror, the supernatural, and its cast of famously eccentric characters. While it's hard for me to recall much in the way of specifics about the series 30 years after the fact, I am pleased I didn't have to go all the way back to the 1980s for a pop culture tie-in for this week's Weekly Wire.

The reason we are turning to Twin Peaks this week is that we just might be at two peaks that could bode well for US equities through the back half of 2022, and those potential peaks are peak inflation and peak investor pessimism. As it concerns the former, we learned last week that the CPI in April was up 8.3%, a still historically high reading but down from the 8.5% reading in March, and the first month to month decline for the CPI in eight months. As it concerns the latter, the late April AAII Sentiment Survey showed the greatest percentage of individual investors as being bearish on stocks since 2009 (see chart). Since sentiment is considered a contrarian indicator, peak pessimism has historically been associated with higher prices for stocks on a go-forward basis (consider that the S&P 500 was up more than 20% in 2009). If inflation is peaking, it is likely the Fed won't deviate from an expected 50 bps hike in the Fed Funds rate at its June meeting and at its July meeting, a dynamic that could calm investors concerned the Fed would have to move faster and farther on the rate hiking front to bring inflation under control.

It has been a very challenging year for stocks. That written, if we have seen peak inflation and peak investor pessimism the path forward for the market should be much more constructive.



Stocks, bonds, and commodities (5/13/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4023.89	-11.18%	-15.57%	-3.59%
MSCI AC World ex USA	287.05	-11.29%	-16.63%	-16.82%
MSCI EAFE	1942.38	-10.97%	-16.85%	-15.26%
MSCI EM	1004.52	-12.02%	-18.46%	-23.17%
Bloomberg Barclays US Agg	93.53	-4.39%	-10.70%	-11.39%
Crude Oil WTI	110.18	9.87%	46.50%	68.55%
Natural Gas	7.72	36.87%	117.09%	160.79%

Treasury rates (5/13/2022)

	Price		Yield
2Y	99.26 /	99.2	2.582
3Y	99.30 /	99.3	2.764
5Y	99.15 /	99.1	2.861
7Y	99.20 /	99.2	2.932
10Y	99.20 /	99.2	2.916
30Y	95.28 /	95.3	3.084

Weekly reports

This week (5/16/2022)

- Empire State Index SA May
- Housing Starts SAAR Apr

Week of 5/9/2022

- CPI NSA Y/Y Apr 8.3%
- PPI NSA Y/Y Apr 11.0%

Brinker Capital Market Barometer

MAY 2022

A strong labor market, wage growth, and healthy consumer balance sheets are boosting the US economy, although geopolitics, inflation, and Federal Reserve policy are taking center stage. Global markets have fallen back to year-to-date lows as interest rates continue their upward ascent. Expectations are high for the Federal Reserve to raise interest rates more than 0.25% during the May FOMC meeting. The conflict in Ukraine rages on, with related headlines contributing to price volatility across asset classes. The second quarter earnings season is in full swing, and early results are favorable. Company commentary around controlling costs and maintaining margins will be important to monitor throughout the season. A strong consumer bodes well for economic cycle durability, but we are watching to see if the persistence of inflation and geopolitical worries may curtail spending.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum	←	●			Market has returned to year-to-date lows, giving back the recent recovery
Trend	←	●			Index levels have dropped back below moving averages
Investor sentiment				●	Surveys show significantly more bears than bulls, a contrarian indicator
Seasonality	← ←	●			Markets are entering a period of seasonal weakness, particularly in a midterm election year

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Fiscal drag a headwind in 2022; unlikely to see any major new fiscal spending
Monetary policy				●	Markets have tightened ahead of the Fed, but financial conditions are still accomodative
Inflation		●			Persistently high inflation may cause Fed to adjust timeline; weighing on sentiment
Interest rate environment			●		Rates remain historically low, but the effects of future rate hikes remain to be seen
Macroeconomic				●	Consumer balance sheets remain strong and the labor market remains healthy
Business sentiment				●	Business confidence measures declined from recent highs, but remain elevated
Consumer sentiment		●			Consumer sentiment is deteriorating as inflation persists
Corporate earnings				●	Broad-based strength in earnings, closely watching margin pressures and basing effects
Credit environment				●	Corporate credit spreads are widening but still at tight levels relative to history

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		Equity valuations have moved closer to long-term averages
Business cycle				●	In an economic expansion period with positive GDP growth since 3Q20
Demographics			●		Emerging markets with more favorable trends overall than developed markets

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