JUNE 2022

The Institutional Strategist

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US MARKETS

Equity & Fixed Income Markets
Market Themes and Stocks

Featured This Month:

America's Equity Market

Crude Oil and the Transition - The Coming Price Spike

US Currency Review

by TIS Group, Inc.
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PURPOSE:
The Institutional Strategist is a third party, independent, monthly publication, covering geonomics, global stock markets, interest rates, market themes, and currency trends. Our purpose is to present non-consensus, timely analysis designed to call major "turns" and to assess various forms of risks.

COVERAGE:
Each month we assess investment/economic risk across major asset classes, and major economies as well as selected emerging markets.

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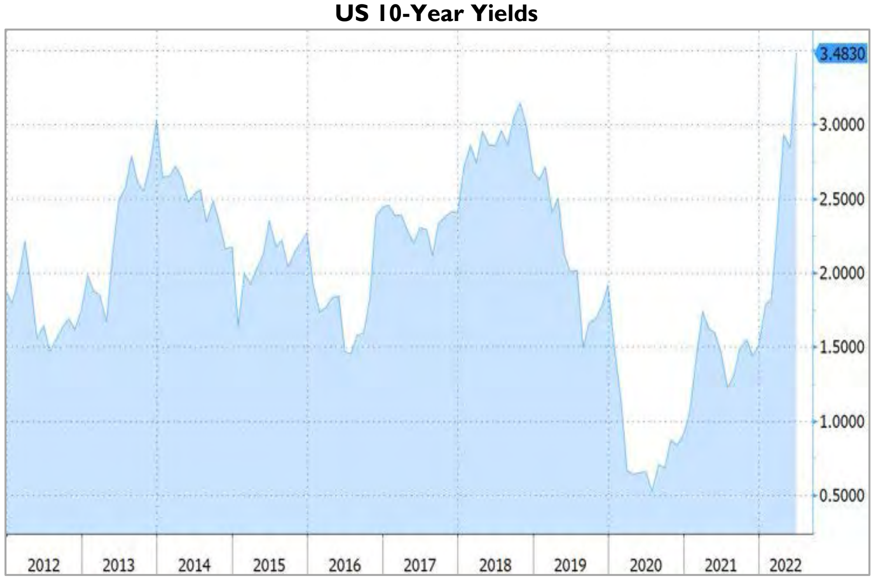
US 10-Year Yields



Courtesy of Bloomberg LP

III. Equity Market

S&P 500 – Our Intermediate Term Model is Negative

Courtesy of Bloomberg LP

SUMMATION:

- **US Stock Market**—The economic outlook for 2022 suggests GDP growth may decelerate to the point a recession gets underway while inflation remains stubbornly high (7%-10%). Multiple rate hikes are coming over the next few months along with a reduction in the Fed's balance sheet. But for how long will this tightening cycle run? Consumer expectations of inflation are rising on everything from food to energy while wages are surging along with job openings. Monetary and fiscal policy are being re-focused on reducing social/income inequality, raising employment and rebuilding the nation's infrastructure all while fighting inflation? The Fed may well have to do a sharp series of rate hikes more quickly than expected to quell as best they can, cost push inflation. A shortage of capex, supply chain problems and sanctions are all conspiring to push inflation higher. Are commodity embargos next? What can the Fed do about supply chains and sanctions?

V. Stock Market Indicators

OVERVIEW:

A. Monetary/Fiscal Policy—M2, is running at +8.04% annually. Raw materials prices are very strong and they correlate to 8%-9% PPI. CPI has hit the 8%-10% range higher and may well remain there on a sustained basis. Many companies are indicating they can pass on price increases. Wage pressure will increase further. Yield curve control could be the next monetary tool to be used to keep short and intermediate rates contained though possibly QT is given a try. The Fed balance sheet should eventually grow to $12 trillion or more over the next few years as budget deficits blossoms. The OMB is planning on over $1 trillion deficits per year over the next three years. Fiscal policy remains dominant over monetary policy.

B. Sentiment—We use the sentiment figures as a contrary indicator. The current MV bullish adviser's reading is at 47%.

AAII Index			
	5/19/2022	5/26/2022	6/2/2022
Bullish	26	19.8	32
Bearish	50.4	53.5	37.1
Neutral	23.6	26.7	30.9

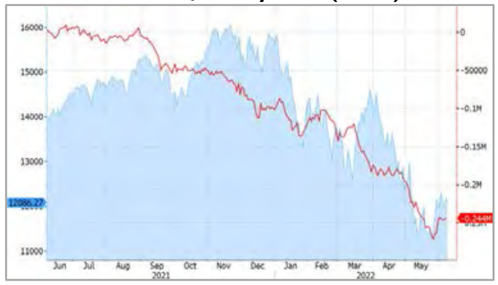
Source: Bloomberg LP

Market Vane Survey			
	Last Week	Two Weeks Ago	Three Weeks Ago
Bullish Consensus	47%	46%	49%

Source: Barron's

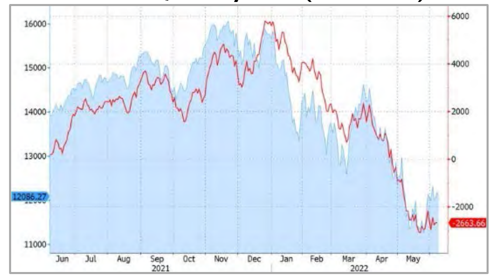
C. Supply/Demand/Money Flows—Risk appetites are starting to change toward a much more conservative environment. Meanwhile, corporate share buy backs are set to remain at high levels as corporate profits were very strong during 2021, though in 2022 some companies will experience cost pressures. The IPO / Secondary Market should dry up as stocks come down, however demand for equities, for share – buybacks should pick up if stock prices fall to the 3700-3800 level on the SPX.

NASDAQ Money Flow (Block)



Courtesy of Bloomberg L.P.

NASDAQ Money Flow (Non-Block)

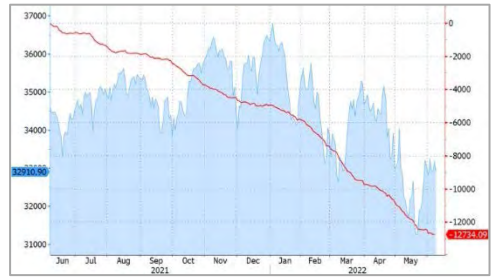


Courtesy of Bloomberg L.P.

S&P 500 Money Flow (Non-Block)

Courtesy of Bloomberg L.P.

Dow Jones Ind Average Money Flow (Non-Block)



Courtesy of Bloomberg L.P.

D. Valuations—2022 S&P earnings should come in around $200-$210, so the S&P is trading at roughly 17x-18x earnings. Hard assets, cyclicals, industrial / precious metals / industrial metals / commodities, which are still cheap relative to long duration US equities (tech). For long duration assets such as technology stocks, long term interest rates remain a key factor. Government bond rates are rising and probably have not finished their run to the upside.

E. Rate of Change—The S&P 500 is oversold as of May 5th.

S&P 500 with 13 and 52 Week Rate of Price Change

Courtesy of Bloomberg LP

Conclusion—Inflation in raw materials, oil, gasoline, wages, rents, food and health care costs are coming through. Further changes in economic policies are coming, especially on the fiscal side which are likely to be inflationary. Equity valuations have contracted, pushed by inflation, rate hikes and a war. What is the right PE on a war-time stock market? Getting the "E" in PEs will be the next challenge, as will dealing with further PE compression once the market prices a longer than expected period of inflation.

The Fed has fostered an investing environment where real assets, inflation linkers, materials, and energy should be a new focus for stocks, especially relative to technology. The world is short inflation beneficiaries and still very long of NASDAQ. The S&P 500, on the charts, still looks like it is in a bear market.

Data Sources:

Barron's, 6/6/2022
Bloomberg
Investor's Business Daily, 6/6/2022
Paul Nesbitt (618024 Ltd)
The Economist, 6/11/2022

S&P 500 Index

Courtesy: Bloomberg LP

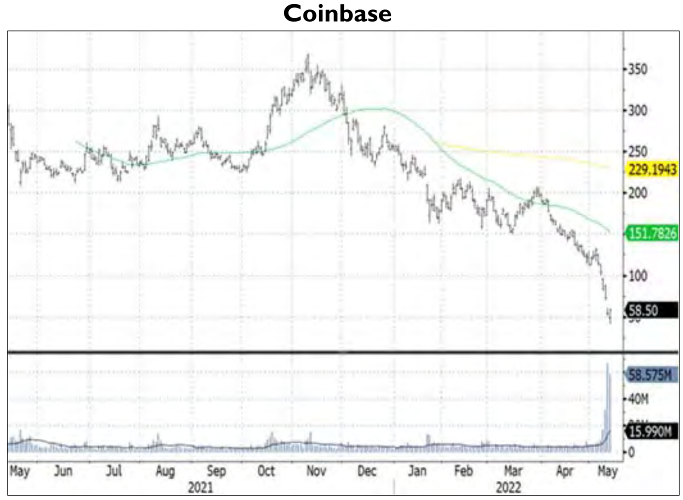
Where is the Low in US Stocks?

In a recent piece, I suggested the PE on the S&P 500 had another 1-2 points to lose, so two things now matter most. The E in PE is one factor and, on that score, the outlook is not great. I will explain in the section below. The second factor is liquidity. If I had any doubts about crypto's ability to overcome liquidity issues, act as a hedge against inflation, ride their own liquidity tide, they are gone. This is just weeks after a massive Bitcoin / crypto convention in Miami, where all the signs of excess were present, cryptos have shown us what happens when liquidity disappears. These were the types of statements going around. Several trillion Dollars in value have disintegrated as stable coins have proved unworthy of their name and Bitcoin has fallen more than 50% since the November 2021 high. I don't think there will be enough collateral damage from the crypto bust to send stocks much lower, but there has been some effect. Look at the charts of Robin Hood and Coinbase, two venues where retail traders have gathered.

Robinhood Markets

Source: Bloomberg LP

Coinbase



Source: Bloomberg LP

The bigger issue for stocks now is the uncertainty of how the US economy (and the Chinese economy), move in the next few months. The UK is headed for a brief recession at minimum, as is the EU. Emerging markets are fighting the DXY tape, which I remind everyone, Mr. Addison has noted a move to 120 is possible on the chart. Think about what cross rates would have to do to get DXY to trade to 120. Euro/Dollar would likely blow through parity. Dollar / Yen would go to 150. Sterling would likely trend back toward the mid 1980's lows vs the Dollar. Calls for a Louvre type accord to weaken the Dollar would build. Emerging markets would be decimated. Currency pegs such as the HKD/USD would come under huge pressure. Commodities would likely fall for the most part, though I caution that the CRB's run over the past 18 months occurred while the Dollar rose. A rise in currency volatility is right around the corner.

I listened recently to an explanation on financial television about why the US consumer would not be bothered to curtail spending. It was rather hard to believe that record gasoline prices, record diesel prices, 8% Inflation, 11% PPI, rents going through the roof, food inflation running very high and potentially going much higher in the months ahead, was to be offset by cash holdings and strong wage growth. Wages have not kept up with CPI. As far as cash holdings are concerned, the crypto world just lost the equivalent of 10% of GDP. The Faangs alone have done even more damage, more than 10% of GDP over the past 6 months and it is consumers who own the cryptos, the Faangs and tech stocks – not all of them but the consumers asset accounts have been hit. Some of their financial cushion is gone. The panic has not even started yet in stocks.

In China, the economic omens are not great. The government says GDP will grow by 5% or so but I don't believe that. Shanghai is in its 7th or 8th week of lockdowns and the traffic data, transport movement and some of the early economic releases which covers April, shows very sharp declines. There is no sign of a let-up in Covid zero policy, the Dollar is cutting off EM growth and the way China is importing food, oil and natural gas, it does appear Beijing is preparing for something of a change. Is the surprise later this year, as to how aggressive Beijing becomes toward the US?

For the sake of argument, let's assume Chinese GDP actually falls in Q2 and Q3 and the full year number is negative. US exports are likely to be down anyway given Dollar strength and if China's economy falters, EM economies follow China lower and are hurt by a rising Dollar, where does that leave the US "E" in PE? I think it goes lower and the equity market has not priced a further deceleration in corporate earnings. How much liquidity is in the financial system will be crucial, and for now, the Fed wants financial conditions to tighten - ergo stocks should fall.

35% declines on a y-o-y basis normally represent reasonable buy points. The S&P 500 would have to trade down to about 2,750-3,115 to move into the buy range. It's not too late to sell.

Sources:
Bloomberg Data
Bloomberg News

Global Slowdown into August 2022

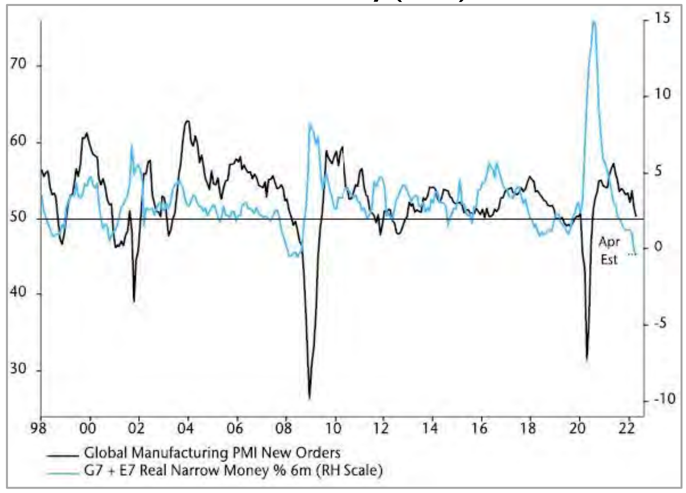
The following article is written by Simon Hunt, who writes for TIS Group's Frontline China Report. If you are interested in articles similar to today's piece, please contact Larry Jeddeloh at tis@tisgroup.net

"Everybody worships at the New Keynesian altar, in thrall to the canonical 'dynamic stochastic general equilibrium' (DSGE) model of Ivy League academia and modern central banking." **Ambrose Evans-Pritchard**, Daily Telegraph

"Every 40 years or so, something Bad happens. Every 80 years or so, something Really Bad happens." **Garrett Jones**, Observations, May 17th 2022

Whatever the pitfalls, such as the leads and lags, measures of money supply provide leading turning points in business activity in contrast to the modern Keynesian DSGE models. The former are real-time business indicators; the latter are politicized fiat money models.

Global Manufacturing PMI New Orders & G7+E7 Real Narrow Money (%6m)



Source: Simon Ward, Money & Cycles Weekly Bulletin

The chart shows that a key measure of the money supply, namely six-month real money annualized is now sharply negative across the fourteen largest developed and emerging market economies. Not only should these monetary trends signal a sharp fall in global PMI new orders, but the chart should act as a wake-up call for those in the metal markets who cling to the belief that prices can only go higher.

Declining real money supply across 14 countries has already shown up in the global PMI data as set out in the JP Morgan Manufacturing PMI for April. The percent changes for April this year compared with April 2021 tell their own story.

Global Manufacturing PMI April 2022 vs April 2021 % Changes

PMI	-6.5%
Output	-13.0
New Orders	-11.3
New Export Orders	-11.9
Future Output	-3.0
Employment	-2.0
Input Prices	+3.2
Output Prices	+6.7

April should be followed by sharper declines in the PMI data declining below the 50 level by the Autumn.

In the USA, the University of Michigan's gauge of consumer sentiment fell to 59.1 in May from the April reading of 65.2, its lowest level in more than 10 years; and consumers' assessment of their current financial situation relative to a year ago is the lowest reading in 13 years. For consumer durables, buying conditions reached their lowest reading since the survey began questioning these goods in 1978. High prices were the main reason for the weakness.

In short, America's GDP should rise by just 1% this year.

In Europe, the sentiment indicators slipped in April, consumer confidence slipped and industry confidence fell by 0.8% reflecting an improvement in managers' assessment of stocks of finished products. After over a year of record low assessment of stocks, there are early signs that inventories are being replenished. But the improvement in inventory assessments may be the result of new orders falling by 6.9%.

However, the auto business is the backbone of Germany's manufacturing. In the first four months of the year, car registrations fell by 9%. Liquidity conditions are likely to tighten with the ECB's policy normalization process likely to include a reduction (or end) to long-term lending to banks according to Goldman Sachs. With Euro 2.2 trillion of TLTRO financing outstanding, this should see excess liquidity in the Euro area drop, even without bond quantitative tightening.

Rising oil and gas prices together with food prices soaring will mean that the European economy will be in recession by year-end.

The Chinese economy is effectively now in recession, whatever are the official numbers. Today's (May 20th) reduction to the 5-Year Loan Prime Rate from 4.60% to 4.45% whilst keeping the one-year rate unchanged suggests that the focus is on a revival of the housing market.

However, consumer sentiment has been so badly hit over the past year that a drop in mortgage rates and lifting of local government restrictions is unlikely to lead to any meaningful recovery of the housing market for some months. The same can be said for business sentiment; it will take time for business sentiment to be repaired especially in the all-important private sector.

Announcements of many large infrastructure projects are more likely designed to improve sentiment rather than what will be seen on the ground. Local government revenues have fallen sharply and their ability to borrow is constrained at a time when they have fixed costs to cover (employment, salaries etc.)

Hope is being generated by the gradual lifting of lockdown restrictions in Shanghai but other cities across the country remain locked down thus making the logistics of moving goods across the country difficult. It may yet take several months before the country is free of these restrictions.

Meantime, there are several rumors of a pushback against Xi being given a third term, many of which originate from overseas and recirculated domestically. All that we can say at this stage is that they are rumors for he has the full support of the security services and the PLA as well as nearly all of the country's rural population – 540 million.

Overriding these regional developments, is continued war being fought between Russia and NATO over the lands of Ukraine. The big risk is that this war will spread to other European countries by the autumn together with China being increasingly worried by America's growing overt support for Taiwan.

This is a short note to emphasize our concerns that the world economy to slipping towards recession by the Autumn with consequential further large falls in equity and commodity markets before central banks move from QT to QE causing modest global recovery but roaring inflation into 2024.

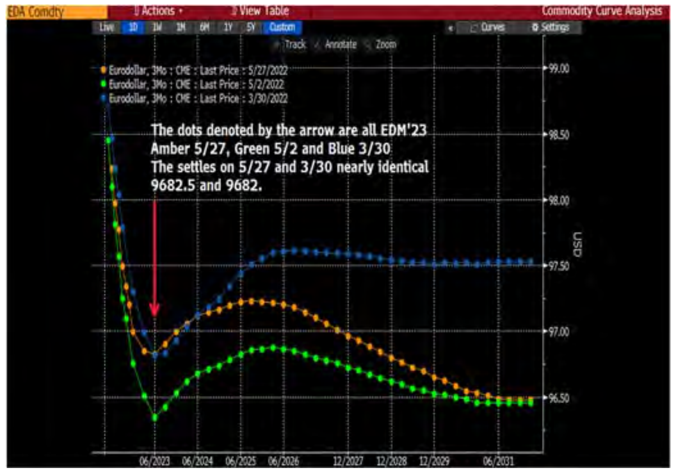
Source: Simon Hunt Strategic Services. May 22, 2022

The End Game

The following article was written by guest author Alex Manzara at R.J. O'Brien in Chicago for TIS Group.

Below is a chart of the Eurodollar futures curve on three dates: May 27th (amber), four weeks earlier on May 2nd (green) and two months earlier on March 30th (blue). As shown, the lowest near-term dot (within five years) has been the June'23 contract. On March 30th, the settle was 9682 or 3.18%. The steep decline prior to June reflects 'front-loaded' hiking, expected to occur in 2022 through the start of 2023.

The low settle in the June'23 contract was on May 3rd at 9631.5. Since that time, it has been grinding higher, (to a lower yield). What does this chart tell us? First, it indicates the market's assessment of what the peak Fed Funds (FF) target is going to be in this hiking cycle, and when. If we use a spread of 25 for the Fed Effective rate to the Eurodollar, then 9682 or 3.17% is more or less consistent with a FF target of 2.75-3.00% (effective federal funds rate, EFFR, would be 2.83%). At the absolute low in early May, the market perceived a target FF of 3.25 to 3.5% (or perhaps a shade higher).



As the month has progressed and stocks wobbled, the market pared back its assessment of the peak FF target, even though official inflation figures remained high. There are a couple of other takeaways from this chart. The first is nearly imperceptible on this graph, but the market is also slowly moving the timetable forward with respect to the end of Fed tightening. Dots to the immediate left of the June'23 contracts are March'23. On the blue and green plots, the March contract is significantly higher than the June contract.

Below is a graph isolating the EDH3/EDM3 (March 2023/June 2023) calendar spread. The decline in this spread over the past few weeks is signaling that the market is moving its perception of the end of hikes nearer in time. The low settle in EDH3/EDM3 was 0.5. That means that both contracts were essentially the same price, and that March is close to becoming the weakest contract. That is, March is where the market is forecasting a peak inflection point between hiking and easing.

There is one other very interesting aspect to the top chart, and that is the forward rates a few years from now. First consider the blue line from the end of Q1 (March 30th). The Eurodollar curve was forecasting a high FF target of about 2.75-3.0% but within a couple of years, a shift down to about 2.25%. An interpretation would be that inflation will be "beaten" causing collateral damage to the economy which would slow appreciably due to front loaded hikes. The green line (May 27th) tells a similar story but with a different ending. Front-loaded hikes (with an even more aggressive trajectory) followed by a subsequent shift lower, consistent with 2.75 to 3.0%, and then a more positive curve again. But look at the amber line: Again, we see front loaded hikes with the subsequent reversion to somewhat lower funding rates, but the reversion features a more modest trajectory, and the highest contract/lowest yield has also been moved forward in time to September 2025 (EDU'25). From there the curve steepens more aggressively than seen in either of the other two timelines. It's as if the market is paring back the peak rate but perceiving a lingering increase in inflation expectations resulting in a steeper forward curve.

Clearly, the message from futures markets can change over time. However, for the duration of this cycle, the perceived peak FF target has never been higher than 3.5%. Front-loaded hikes have not been perceived to continue past the middle of next year. And as of the second half of next year, the market is looking for the possibility of a reversion to lower funding rates. Longer term inflation concerns appear to be growing. Similar to the 1970's inflationary episodes, the market is fearful of another significant wave of inflation emerging several years from now.

Asset Allocation

Unconventional Model

		% of Total
CASH	USD	31%
STOCKS	iShares MSCI Emerging Markets (EEM)	10%
	KWEB	10%
	SPDR S&P Oil & Gas Exploration & Production (XOP)	10%
	TIS Energy Security/Infrastructure Basket: (Tamarack Valley	6%
	Energy Select Sector SPDR Fund (XLE)	5%
	VanEck Vectors Gold Miners ETF (GDX)	5%
	Invesco QQQ Trust	4%
	Hang Seng Index (HSI)	3%
	Junior Silver Miners (SILJ)	3%
* ALTERNATIVES	Gold*	5%
	Uranium	5%
	Silver (SLV) *	3%
	TOTAL	100%

CRB Continuous Commodity Index

Courtesy: Bloomberg LP

Crude Oil

The US Department of Energy, after disclosing just weeks ago it would release 1 million BPD from the Strategic Oil Reserve, announced on May 5th it would begin to re-fill the SPR, calling for bids later in the year to buy up to 60 million bpd. This purchase would replenish about one-third of the oil reserves they would be selling. The rationale seems to be to encourage domestic producers to increase production via a guaranteed buyer. I think what they will find is the market has already priced the SPR release, in fact all three of them and in every case, prices moved higher. Recently, WTI ended at $120, a level which is now within striking distance of where it traded at the beginning of the Ukraine war.

Crude Oil WTI

Source: Bloomberg LP

A recession is the best hope for the oil bears, whether it is a US recession or a European recession, or both. Europe's economy is now faced with a third country having its gas supply shut off by Russia - Finland being added to the list along with Poland and Bulgaria. The key market would be Germany and if I heard the numbers correctly, a friend in the UK said his utility bill was rising from 1,200 pounds annually to 3,600 pounds by fall and then the caps come off. I don't know how the UK consumer can tolerate this without it affecting other forms of consumer spending. An energy led recession seems increasingly likely to me, especially if the war in Ukraine shifts in favor of Ukraine and the political turmoil which seems to be emerging in Russia grows in intensity and importance. This is a very dangerous phase of the conflict which is confined to Ukraine now, but I expect it to spread, especially if gas and oil are continued to be used as weapons.

An energy led, European recession will put further upside pressure on the Dollar, as Euro weakness would accelerate. The Euro/ Dollar moving from 1.14 to 1.04 since the war started did little to slow oil's advance. That's an 11% appreciation of the Dollar during which time WTI advanced from $92 to $110, a 20% gain. Wars are inflationary and wars tend to benefit the reserve currency, which remains the USD. No one is fleeing to buy RMB that I know of. Maybe there are is buying of RMB assets, though the Chinese markets do not reflect that. I think the Taiwan Dollar would be more interesting as a safe haven. Every dip in oil prices is an opportunity.

Sources:
Bloomberg Data
Bloomberg News

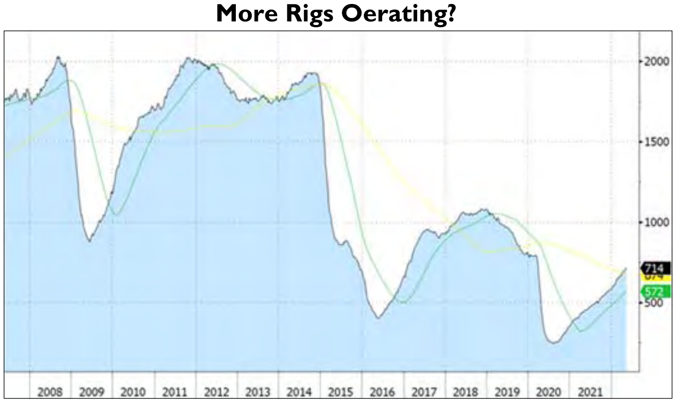
Crude Oil - Going Higher, But How High? US PEs, New Theme

"I am a dinosaur, but I have never seen such things" (1). This quote is from Prince Abdulaziz bin Salman Al Saud and was made while attending a recent conference in Abu Dhabi. The Prince is not a newcomer to the energy world. He has been involved for 40 plus years and what he was referring to is the price of refined energy products. He continued, "The world needs to wake up to an existing reality. The world is running out of energy capacity at all levels" (2).

The world is already short of needed oil production, but also production and refining infrastructure partly due to Russia's problems, compliance from OPEC+ members and regulatory changes plus ESG pressure, especially in the US and Europe. Years of underinvestment led to an almost 3 million bpd shortfall in OPEC+ production in April 2022 alone. An SPR dump from the US did not help. When the West, specifically the US, calls on OPEC to pitch in and increase production, then dumps its own oil on the market and crude prices rise, the warning bells should be going off. Refined product prices will go higher if demand does not shrink or global supplies increase.

It is pretty clear that in America, crack spreads are so high that refiners are producing all they can. OPEC will not help by producing more oil. Russia, while Europeans are lining up to pay for energy in Rubles, is still producing at a lower level. Canada has capacity but the US has shut down the Keystone pipeline, raised royalty rates and talked down energy companies. Proposing windfall profit taxes is not the best way to encourage energy companies to increase their own cap-ex. An Alaskan oil and gas lease sale was just cancelled by the Interior Department, citing a lack of interest. In fact, there are interested parties, including 400,000 Alaskans whose only source of gas is the Cook Inlet where the lease /sale was canceled. There also happens to be military bases in the region, thus the DOD should be interested. One wonders what the thinking is behind a decision like this? Cutting back on gas, which heats homes in central Alaska? Depriving military bases of energy?

Baker Hughes US Oil & Gas Rig Count - Why Aren't More Rigs Oerating?



Source: Bloomberg LP

Then there is China. Something is changing politically in China, but even without any major change in the politically driven economic direction, the lockdowns should conclude before year end, thus improving oil demand further. The Gulf oil producers are warning that the world has not invested enough to meet current demand. If China starts to reflate, there will be an oil price spike, which takes WTI to a new high, above the old peak at $147. If that price spike occurs in the near term, the odds of a global recession increase quite quickly. American equities have not priced a recession. The "E" in PE has adjusted to higher interest rates but not lower corporate earnings. The last 2 US recessions ended with the S&P 500 PE at 11x and 13x. The current PE is around 17x.

The two or three major factors which hold the keys to the markets next moves, I believe are the price of oil, China and food prices. Even the BOE is warning of a problem coming in terms of food prices in the UK. They will be joined by the US and probably Continental Europe as exports from Ukraine dwindle this year, drought grips the US and a move to organics reduces crop yields, not just in Sri Lanka, but anywhere organics are grown. Crude oil is the issue which Middle Easterners are warning us about and they should be heeded. When even producers are warning of prices which may be too high for the global economies to absorb them, it should pay to factor them into our thinking - especially about what consumers can afford. Spending more than $100 to fill up your car and $10 or more for a box of Frosted Flakes is going to cause an adjustment in consumer spending. My spaghetti indicator has re-emerged after two years under wraps. It's a simple measure of inflation, what is the cost of a plate of spaghetti in a local bistro. It was around $20-$22 at the Covid lows. The cost is now $30-$32 but don't worry there is no inflation, nothing to see here. And that -1.4% GDP reading in Q1 for the US economy, ignore that. Perhaps it is time to re-read Extraordinary Delusions and the Madness of Crowds.

I placed a rebound basket in a recent MIR which included Sea Limited, Square, ASML and Cameco. These are trades. There is a new basket forming I will call the cap-ex/infrastructure/secular theme basket. In it, we start with a 3% position in Canadian energy with the Peyto Exploration & Development Corp. and original holdings. Cash is reduced by 3% The model now looks like this.

Baytex

Source: Bloomberg LP

Sources:
Bloomberg Data
Bloomberg News
(1, 2) https://www.bloomberg.com/news/articles/2022-05-10/saudi-oil-chief-says-all-energy-sectors-running-out-of-capacity

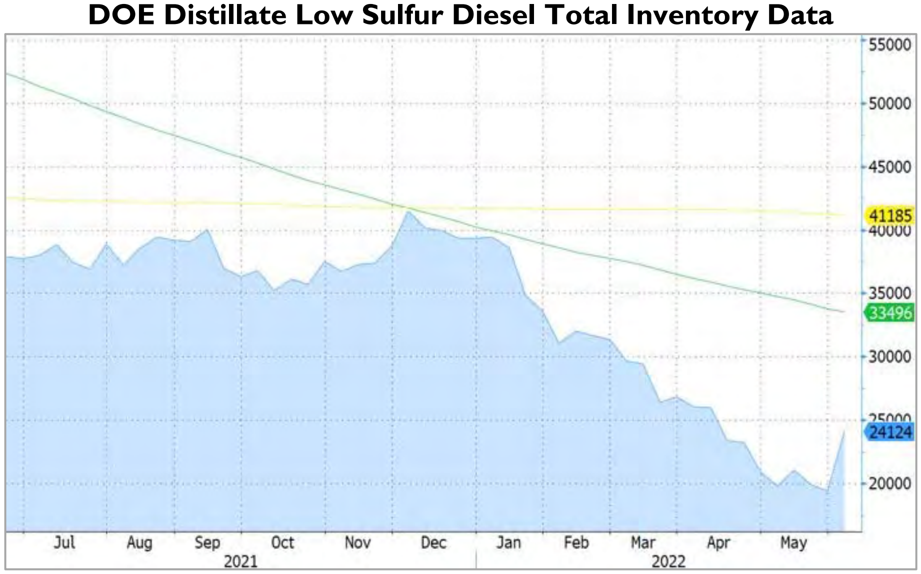
Crude Oil and the Transition - The Coming Price Spike

I was accused by one of my Canadian friends last year, of writing about crude oil every other day. For a time, I may have come close to achieving his observation, but it was worth it. Crude oil and energy stocks performed as expected and food prices are following crude oil/natural gas. What now?

The speeches being made on Tuesday at the World Economic Forum, regarding energy were highly informative. Fatih Birol from the IEA, who suggested in 2020 that oil production capacity should be increased, said yesterday he claimed just the opposite - as gasoline, ammonia, fertilizers etc., all hit new highs. Birol went on to explain that one of the reasons we have such high prices is the European heat wave - and I thought Europe had limited air conditioning.

Also at Davos, Norwegian Finance CFO Kjerstin Braathen said the energy transition will create energy shortages but the pain will be worth it. Whose pain? The pain coming from anti-fossil fuel policies and a lack of global energy cap-ex for 8 years has given us an oil market which is going up in spite of SPR dumps? The Biden administration has drained 40 million barrels from the SPR and WTI prices rose. Why are they draining the SPR while starting to talk to the Venezuelans? I believe there are two reasons. One reason is they may be preparing for a disengagement from importing Saudi oil. This would shorten US supply lines and avoid the problem of a sudden shortage if the Saudis decide to re-direct production elsewhere i.e., China. Longer term, I do think some oil producers in the Persian Gulf will accept payment in other instruments than Dollars for their oil. By shifting imports to Venezuela, the supply chain is shortened, Dollars are used as the medium of exchange and only one thing remains to be done. Refineries across the Gulf of Mexico will have to be converted to cracking heavy oil. They currently crack light sweet, in part due to the shale revolution. Putting some heavy oil in to the SPR makes sense, but watch for a refinery overhaul or two- at a time when crack spreads are off the charts and diesel inventories are very low.

DOE Distillate Low Sulfur Diesel Total Inventory Data



Source: Bloomberg LP

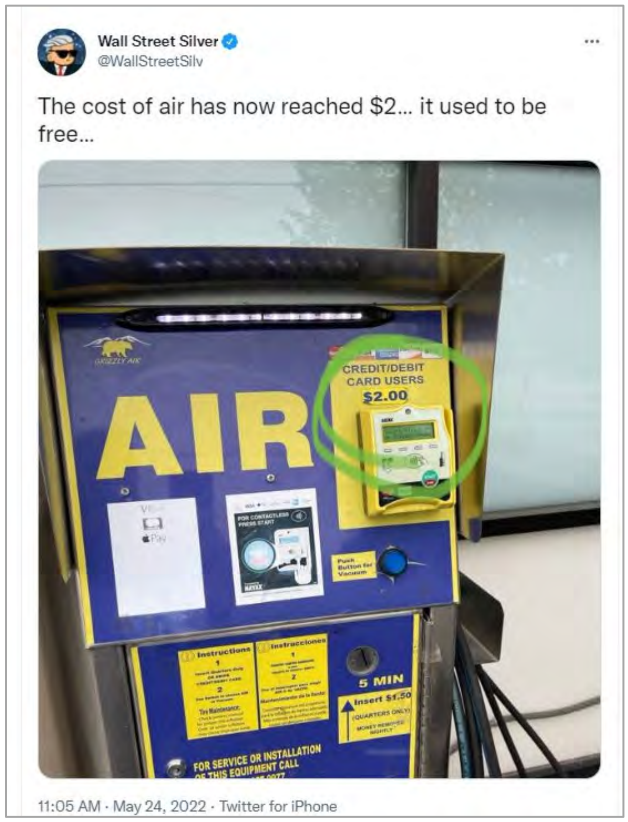
So, what's next for diesel? The US authorities are thinking of tapping diesel reserves to depress the price, just as they tapped the SPR to depress WTI. If they do, diesel prices will fly, just as WTI did. The cost of trucking goes up, freight goes up and the end cost to consumers goes up.

Food prices follow energy prices. I was looking at completion of wheat spring planting and this is not a good look in the US. According to the USDA/NASS, Minnesota plantings are only 11% complete vs. 90% average over the past twenty years. North Dakota is 27% complete vs. 80%. Nationwide completion rates are 49% vs. an 80% average. Some of these shortfalls, I believe are due to farmers being more careful about their use of expensive fertilizers- which will reduce crop yields.

There are signs overseas that energy prices are about to create the cracks in the system I have been writing about. Sri Lanka hiked petrol prices by about 22% and diesel prices by roughly 35%. The Sri Lankan government has told people to work from home - a sign of things to come in other lands. In Germany and in the UK, I do not see how natural gas prices do not crack the consumer as contracts roll off in the autumn. The coming shock to European markets and the European economy could be the trigger for a consumer-led recession.

Finally, what happens when China ends its lockdown policy and opens up? What then happens to the price of oil? Some of the Davos folks are suggesting buyers simply set a maximum price they will pay for oil. Price controls do not work, they have been tried before and if this is an idea adopted by some countries in the West, it will be the prelude to a wild west oil market. Oil is a buy on every dip.

If you think there is no inflation, take a look at this picture.



Source: https://twitter.com/WallStreetSilv/status/1529131478478635008

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Bloomberg News. NI DAVOS

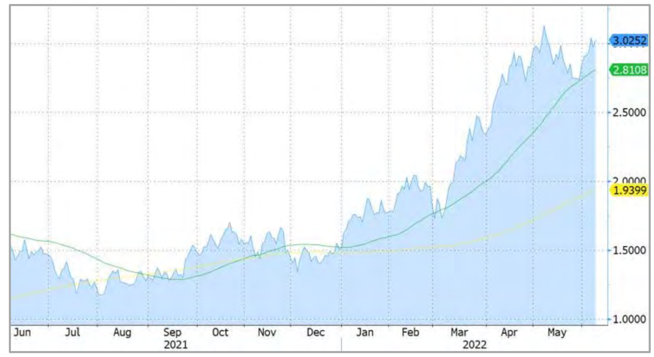
https://twitter.com/WallStreetSilv/status/1529131478478635008

USDA/NSS

US Dollar Index

Courtesy of Bloomberg LP

10-Year Gov't Yields
Are Generational Yield Lows in Place?



Courtesy of Bloomberg LP

Fed Drives Liquidity / Liquidity Drives Markets
Fed Balance Sheet to Grow to 40% of GDP

Courtesy of Bloomberg LP

US DOLLAR—WHAT HAPPENS IF THE FED PIVOTS?

POLITICS

It may be in the US' interest (to devalue government debt) by engineering a lower Dollar in order to attract foreign capital and improve the US balance sheet. Inflation has arrived even with a strong Dollar and it is creating a problem for voters, the administration and the markets in view of this year's mid-term elections.

The Progressive wing of the Democrat Party is very much in favor of raising taxes, whether they are personal income taxes, capital gains or corporate taxes. These proposals are anti-growth; however, the economic offset is massive fiscal spending much of it on social programs which was allocated last year. Many of the new administration's policies increase regulation and slow growth, and spend massive amounts on social programs. The issue now for the Dollar is whether this is all bullish or bearish? History would suggest it will turn out to be bearish for the Dollar and inflationary.

MONETARY/ECONOMIC FACTORS

- Governors are admitting they are behind the inflation curve. There may also be a limit as to how high interest rates can go without starting a major rise in risk asset volatility. That risk is unfolding as the 10-year Treasury Yield trade above 3%.
- The Fed has been encouraging an inflation overshoot in the interest of financing massive social/infrastructure spending and maximizing employment. Chairman Powell's rhetoric along with other Fed Governor's has changed to a more hawkish tone. Multiple rate hikes look like the Fed's next move, unless the markets become disorderly. In terms of the political cycle, time is running out for rate hikes to slow inflation, which may not have as much of an effect anyway. The Democrats have apparently decided to run for election during a rate hike cycle.

WHAT THE FED/GOVERNMENT WANTS

A lower Dollar and a long period of low interest rates is needed for the economy to grow at a pace which outruns the nation's debt service. Inflating the debt away which has accumulated in the last two years, could be another priority. The Dollar's strength in 2021 and early 2022 was a non-consensus move which still has not converted the market to being overwhelmingly bullish on USD. The high may be in place.

TARGETS

A growing problem with unfunded liabilities / medical care / Social Security funding / pension funding, and a surging budget deficit should eventually force the Dollar lower, unless significant revenue raising measures are made or budget cuts are enacted. Tax hikes to pay for additional spending remain unpopular among business, the middle class which is being squeezed by higher inflation. A commodity bull market which is increasingly driven by China, while global supplies are sanctioned / restricted, are a real risk.

Intermediate term, the Dollar looks stable to lower as the Fed will eventually be forced into further balance sheet expansion and QE / yield curve control will eventually be employed. If recession conditions occur, look for the Fed to pivot.

An outside the box risk (a higher Dollar) is a liquidity / economic / financial problem coming from Europe, a breakdown in China credit market or a crypto issue which pushes USD even higher. Inflation is becoming a major issue with inflation expectations hitting multi-year highs and commodities in a bull market. This is a cost-push inflation environment due to a shortage of goods, a lack of cap-ex and supply chain issues. This is not something the Fed can do much about.

On a 1–2-year basis, the monetization of US debt seems more and more likely, which should encourage the Dollar to move lower. Inflating away $30 trillion of government debt and more than $50 trillion in liabilities / entitlements seems like a plan. Intermediate term, the USD should move lower.

UNITED STATES DATA

	Rate of Change	as of
US GDP Nominal Dollars YoY SA	3.50%	3/31/2022
PPI YoY	15.70%	4/30/2022
CPI YoY / inflation	8.30%	4/30/2022
U-3 Unemployment	3.60%	5/31/2022
U-6 Unemployment	7.10%	5/31/2022
M1 YoY	8.90%	4/30/2022
M2 YoY	8.00%	4/30/2022
Federal Funds Target Rate	1.00%	6/8/2022
ISM Non-Manufacturing NMI NSA	55.90%	5/31/2022
US Industrial Product MoM 2	1.08%	4/30/2022

Comparative Data to Other Major Currencies

Country	3 Mo Int Rates	10 yr Int Rates	Real Short Rates (Using 3-mo rates less CPI)	Real Long Rates (Using 10-Yr Govt Bonds less CPI)
Australia	1.17%	3.55%	-3.93%	-1.55%
Canada	1.68%	3.27%	-5.12%	-3.53%
Euro	-0.55%	1.35%	-8.65%	-6.75%
Japan	-0.09%	0.25%	-2.59%	-2.25%
Switzerland	-0.75%	1.051%	-3.65%	-1.85%
US	1.24%	3.02%	-7.06%	-5.28%
UK	1.71%	2.25%	-7.30%	-6.75%

Country	GDP	CPI	PPI	Unemployment
Australia	3.30%	5.10%	4.90%	4.03%
Canada	3.50%	6.80%	16.41%	5.20%
Euro	5.40%	8.10%	19.30%	6.80%
France	4.50%	5.20%	27.80%	7.10%
Germany	3.80%	7.90%	33.40%	5.00%
Japan	0.40%	2.50%	9.50%	2.50%
Switzerland	4.50%	2.90%	4.50%	2.20%
US	-1.50%	8.30%	15.70%	3.60%
UK	8.70%	9.00%	-1.30%	3.70%

as of 6/08/2022

Sources:
Bloomberg Data
Bloomberg News

Key Components Of The Bond Model—CPI/PPI

▶ The year-over-year measure of CPI is +8.3% in April, while PPI stood at +15.7% in April. Recent inflation figures were some of the worst readings in decades.

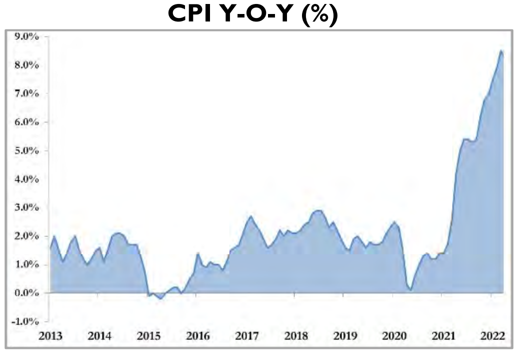
Wage inflation is a persistent problem as US Labor Department/administration policy moves towards being more interventionist (i.e., a national minimum wage, guaranteed incomes/full employment) just as food/gasoline and other key prices rise. Intermediate term, the Fed's massive ongoing money printing operation and a shift in the Fed's policy framework first, to allow the economy / inflation to run hot, then to address an inflation problem, has changed the inflation picture significantly.

US consumer confidence, business confidence, PMIs, hiring intentions / job openings, and small business optimism may be topping. Risks to the downside for the global economy are growing again, i.e., war in Ukraine/ China lock-down. Wars are highly inflationary.

Monetary inflation has been built into the global system via competitive currency devaluations, years of artificially low rates and rampant credit creation. For the world's major debtor nations, the US, Europe, and China, and for all government debt laden nations, as well as some Asian companies with Dollar-denominated debt, Dollar funding is potentially a problem, especially if the Dollar strengthens further and does so quickly.

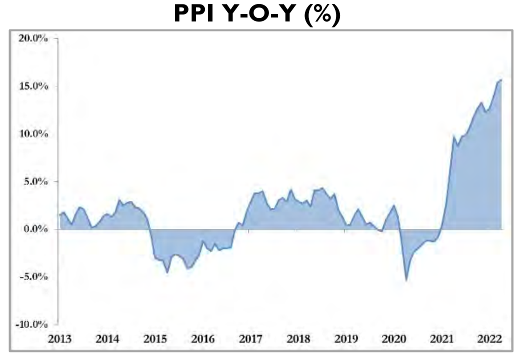
Treasuries need a new buyer, as the US will need to raise $1-$2 trillion or more in new money over the next few years, Japan is selling, China may well sell at some point and for domestic investors, Treasuries have been an ineffective hedge. There are potential domestic government bond buyers around, but mostly on the shorter end of the yield curve. US banks are well positioned to increase their Treasury purchases as their inventories are low, but what interest rate level will they need to increase their bond holdings? The Treasury market, the government and the economy need the Fed to keep rates in check, as the nation's debt burden is over $30 trillion.

CPI Y-O-Y (%)



Courtesy of Bloomberg L.P.

PPI Y-O-Y (%)



Courtesy of Bloomberg L.P.

Commodity Prices — Grains, Precious Metals, And Energy. All Still Too Low?

▶ Commodity bull markets tend to run in roughly 18–20-year cycles. This bull phase for precious metals started in 2003, thus we think secular peak prices in precious metals will occur somewhere in the 2022-2024 time frame, though the Covid-related effect on supply / demand may extend this cycle. Agriculture prices should accelerate further over the next several years due to increased demand from developing markets, Chinese demand, changes in weather patterns and the rising price of key inputs such as oil/ammonia which force food production costs higher. Global demand for protein should also increase over the long term.

On oil, the Saudis have refused to raise production significantly. The Saudis and UAE are underproducing by 2-6 million bpd. Russian oil is headed for China. Algeria and Angola are topped out. Global supply has not kept up with demand. The Saudis need a $85-$95 price to finance social changes described in the Vision 2030 plan. The globally-coordinated SPR dumps (3) have not pushed prices much lower and even a one million BPD dump from the US has not had much negative effect on prices.

Meanwhile, US oil production is just under 12 million bpd, down from 13 million bpd at the peak. Peak production is past as E&P companies will do limited cap-ex going forward, unless regulatory pressure eases WTI exceeds $90 and appears to stabilize there. The fracking boom in America may be nearly over as banks/capital markets are becoming less willing to fund companies which are not ESG friendly. In addition, the Biden administration has ended the Keystone Pipeline Project which may change how Mexico and Canada proceed with future energy production projects. For gasoline prices and inflation, this is bullish. Canada's oil industry has been pressured on the funding side by their banks, as have US companies. Near term, US fracking is picking up, however this will prove to be temporary if high prices do not hold. Internal cash flow by major oil companies is funding the current drilling expansion, rather than debt which is becoming more expensive — and for now, debt funding is really not needed.

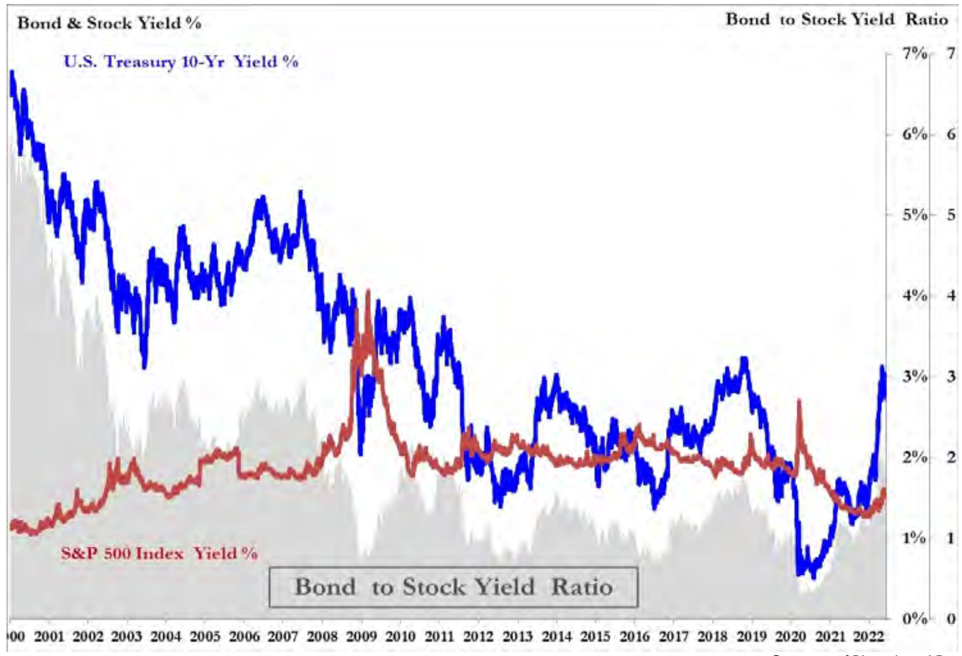
Crude oil may be close to a near term resistance level on the charts. If global demand continues to grow, oil is being set-up to move higher as cap-ex spending continues to fall short. The charts suggest near-term support on WTI has a target around the old high of $147, then $200-$300 longer term.

Global oil demand is returning and should reach pre-pandemic levels over the next two years. Gasoline demand has already returned as driving vacations became much more popular. Upside pressure on energy prices is just beginning as global cap-ex has fallen short of requirements, since 2014, COP26, which pushed for reductions in fossil fuel development, is bullish for oil prices and it makes renewables a green economy more economically viable.

Stocks vs. Bonds

▶ Bonds began to outperform stocks on an extended basis in 2000-2001, when the bond to stock yield ratio fell sharply from 5.5:1 to 2:1. The US stock yield to bond yield ratio eventually traded at 1:1 in 2008. When this ratio reached 1:1 in Japan during the 1990s and 2000s, stocks rallied. Using this ratio also worked in timing the US equity market in Q1, 2009. With a dividend yield of 1.56% on the S&P 500 and a roughly 3.0% rate on the 10-year T-bond, Long Term Government Bond yields are at competitive level vs. US stock dividend yields.

US Bond Yield vs. US Stock Yield



Courtesy of Bloomberg LP

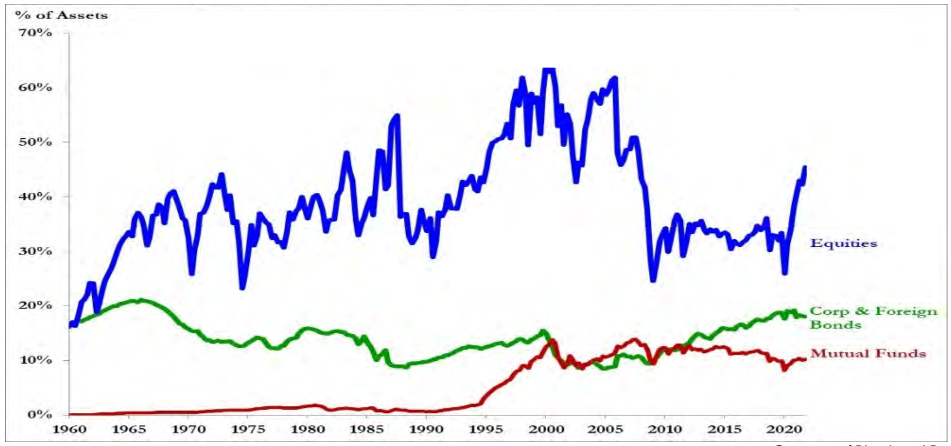
Assets that generate income have boomed in recent years due to the relatively low rate of interest available on short-term bonds/cash and negative yields in the developed world bond markets which is gradually changing. Many of the European government bond markets are moving from negative yields across the yield curve, to positive nominal yields. Real yields remain negative, pretty much across the board.

An aging Japan, China, Europe, and Russia along with retiring baby boomers in the States, all need income producing vehicles. So do pension funds and insurance companies. The global search for yield goes on as demographics in almost all large, developing countries will over time move investors into income related vehicles. As a result, equity-oriented and alternative income-producing assets continue to have a built-in investment constituency, at least until long-term interest rates and the risk-free rate rise. Intermediate/long term bonds have a constituency – retired and income seeking investors, along with pension funds/insurance companies and foundations. Quality stocks, some of them value stocks, with good dividend yields and which have a history of dividend increases (the Aristocrats) offer an increasingly attractive alternative to bonds. They may be the new bond market for income-oriented investors as bonds have delivered meaningful negative returns this year.

Bond Allocations In 401(k)'s Still Low Relative To Stocks

▶ Bonds should eventually benefit from a secular shift in 401K allocations (US), as those allocations are currently lower to fixed income assets (particularly Treasuries) than allocations are to cash and GICs and interest rates are more competitive with equity dividend yields. The enormous losses taken in aggressive stock funds between 2000-2002 accelerated a reallocation process toward lower-risk assets — such as balanced funds, cash, GICs and bonds, but on balance equities have remained the asset class of choice with about 45% of all 401K assets invested in US equity funds, though defined benefit plans have moved their allocations in the opposite direction. The bull markets in equities which occurred in 2003-2007 and 2009-2019, encouraged risk taking in the defined benefit pension world. Alternatives are needed vs. bonds, but the temptation for plan sponsors is to immunize their liabilities when long term yields exceed 3%-4%. The 10-year Treasury Yield has not seen 4% in a decade. That may be about to change. How much longer can consultants continue to recommend sovereign bonds when rates are at or near zero and bond prices are falling? Bonds look relatively unattractive compared to equities. Bonds as a diversifier have come into question (even by the BIS) as yields fell to very low levels and bond rates rose massively in recent months. If multi-asset funds decide to reduce bond exposure, the Fed will again be called on to soak up supply, which is large and growing. If inflation picks up too quickly (and that seems to be the case), the Fed may eventually choose to buy up Treasuries to cap rates, yield curve control in action. So far, in Australia and Japan, YCC has delayed a rise in rates, but it has also had an effect in the FX markets and in Australia's case, the interest rate peg at 10 bps on the 10-year yield was broken.

Bond:Stock Allocations



Courtesy of Blomberg LP

Overwhelming Bond Supply Ahead? Treasuries Need A Buyer

▶ Foreign related inflows have virtually stopped going into US government bonds over the past four years, since QE ended, in fact, foreigners have been net sellers for years. They have sold (net) about $900 billion of Treasury securities over the past five years with $540 billion in Treasuries sold or not rolled over in 2020. In 2021, the selling virtually stopped. But in 2022, they are moving out of or greatly reduced buying in Treasuries, Agency and Corporate bonds. Will QE4 or YCC send the price signal which foreigners need to become buyers again? With QT on the way, how high will rates go before the Fed steps in?

US Long-Term Portfolio Capital Flows

This Is America's Achilles Heel – Foreign Net Purchases US Securities

Foreign Net Purchases of US Securities *(billions of U.S. dollars, not seasonally adjusted)*														Foreigners Selling Treasuries
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 thru March
Treasuries	538.4	703.7	432.6	416.4	40.9	165.5	-20.3	-329.7	20.0	1.7	-134.6	-540.0	82.2	198.5
Agencies	-11.5	108.0	80.9	133.0	62.1	74.6	156.7	270.3	135.1	230.1	300.1	466.8	321.5	76.3
Corporates	-40.8	-13.2	-45.2	-24.1	15.6	25.3	134.1	124.4	103.3	52.0	15.4	7.5	140.5	61.3
Stocks	152.7	109.7	25.1	108.8	-40.2	-16.1	-114.9	-13.6	118.9	-129.8	-3.5	11.6	47.8	-170.5
Total	**638.9**	**908.3**	**493.4**	**634.1**	**78.3**	**249.3**	**155.6**	**51.4**	**377.3**	**153.9**	**177.4**	**-54.1**	**592.0**	**165.7**
Foreign Net Purchases of Foreign Securities from US Resident Holders *(billions of U.S. dollars, not seasonally adjusted)*														
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 thru March
Bonds	-127.5	-54.6	-52.6	19.9	-43.6	131.7	276.06	258.70	233.2	324.8	156.0	156.0	368.71	65.82
Stocks	-59.4	-60.6	-71.7	-41.1	-150.5	-105.7	-114.19	-71.28	-106.1	52.9	51.4	0.0	-54.25	-7.88
Total	**-186.8**	**-115.3**	**-124.3**	**-21.2**	**-194.1**	**25.9**	**161.87**	**187.43**	**127.1**	**377.7**	**207.4**	**156.0**	**314.46**	**57.94**
Long-Term Security Net Inflow to the US *(billions of US dollars, not seasonally adjusted)*														
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 thru March
Net Inflow	**452.0**	**793.0**	**369.0**	**612.9**	**-115.8**	**275.3**	**317.5**	**238.9**	**504.4**	**531.6**	**384.8**	**101.9**	**906.5**	**223.6**

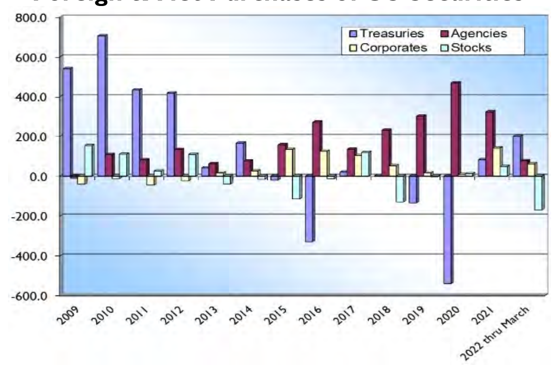
Data Source: Bloomberg LP

Middle Eastern SWFs may start re-allocating capital geographically over the near term toward Asian based buyers of crude oil (their customers). Eventually, Middle Easterners could turn into sellers of USD assets (they may have done so already in the Treasury market), which will spell trouble for capital flows into US assets and the US Dollar. Global trade and capital flows may be about to change as China and the US increasingly come into economic confrontation. China has reduced its exposure to the Dollar already. Intermediate term, we can see China demanding to be able to pay for US or Russian goods or oil, metals, grains etc. in Yuan.

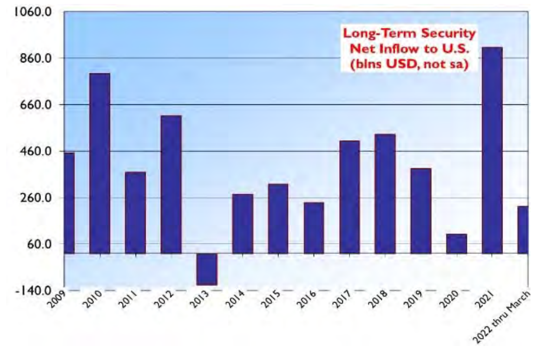
As oil transactions are increasingly done in non-Dollar currencies, i.e., India buying oil in Rupees and China buying Russian/Saudi oil in Yuan, Angola, and Venezuela, Sudan are selling oil for instruments other than Dollars and China is buying Nigerian oil for gold-backed Yuan bonds. The SWIFT system is increasingly going to be by-passed by Russia and China in favor of CIPS. A digital currency from the PBOC as well as from other central banks (a Digital Dollar?) is on the way, possibly as early as this year. In the US, the President has directed that an E-Dollar be explored by year end.

A $2-$4 trillion increase in the Federal debt looks very possible over the next 2-3 years, on top of the current total government debt of $30 trillion. If current bondholders were to fail to roll-over T-debt, the Fed will have to become an even bigger buyer. If the BOJ's experience is helpful (they own approximately 33% of all JGBs) and the BOJ's balance sheet is 100% of GDP, the Fed would have to buy roughly another $1-$2 trillion in Treasuries to reach a 33% of the total Treasury debt level, based on the current size of the Fed balance sheet – which is about to be reduced! Yield curve control appears to be one of the next policy options, when rates are too high. An extended period of yield curve control would create a very different environment for asset prices, helping long duration assets as well as pushing inflation higher – which should have a circular effect on tech stocks and bond yields. Near-term however, QT looks ready to start any day. The longer the Fed waits, the more likely markets will price uncertainty.

Foreign & Net Purchases of US Securities



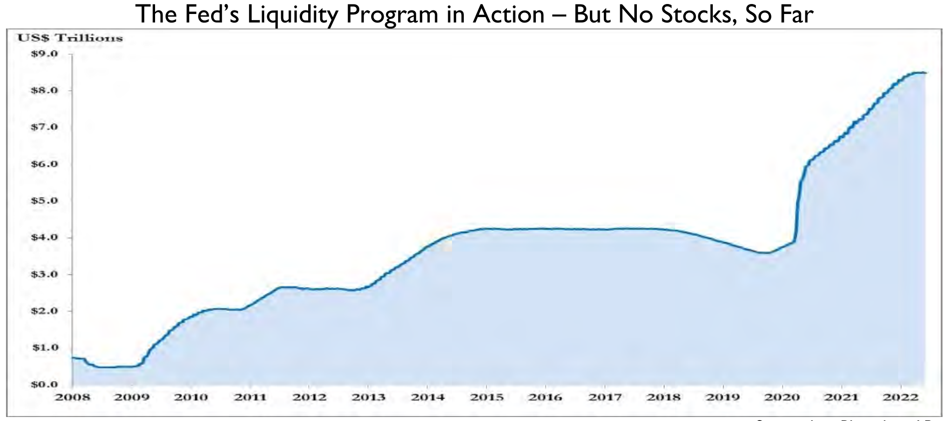
Net Inflows



Data Source: Bloomberg LP

Stocks are being included now in several central banks' portfolios (i.e., Switzerland, Japan, South Korea, and Israel). Eventually, we could envision hedge funds, especially credit funds along with stocks, getting a bigger slice of the central bank asset pie at the expense of traditional bond purchases. Very long term (5 to 10 years) equity investing in both private and public equities has already had good growth. What happens if stocks were to enter a long-term bear market rather than the sharp, relatively short corrections the market has had since 2003? Are commodities the new wave of "good" collateral – if not a potential backing for some currencies?

All Federal Reserve Banks Securities Held Outright
The Fed's Liquidity Program in Action – But No Stocks, So Far



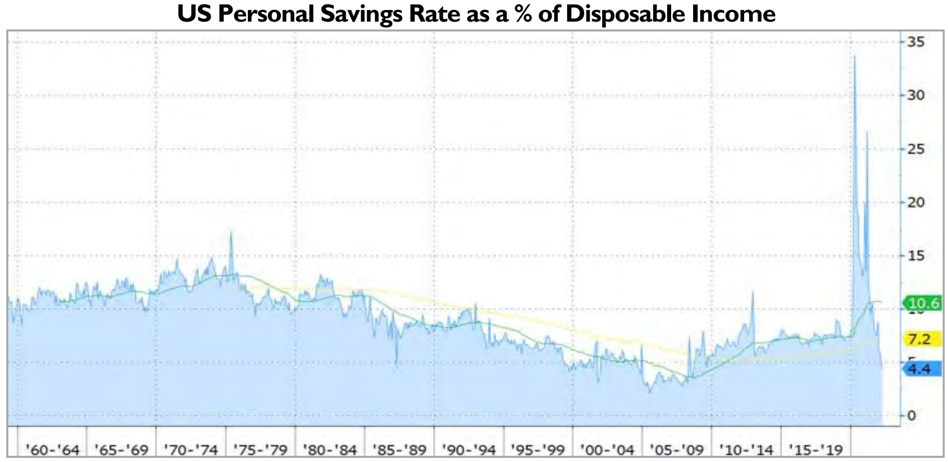
Source data: Bloomberg LP

Did Japan Lead the Way?

▶ Of particular interest on the demand side for bonds are the trends in money fund assets. Money fund assets are well over $2 trillion. The US savings rate has declined at around 4% from 34%.

A form of UBI appears to have started in America via extra unemployment benefits, the childcare tax credit and new programs which appear in the expanded infrastructure bill. Some cities are implementing starter UBI programs. The Build Back Better Bill is the beginning of a Great Society 2 spending program.

US Personal Savings Rate as a % of Disposable Income



Courtesy of Bloomberg

Inflation or Deflation?

► A long period of above normal inflation (2.0%-5% or even higher), which inflates away America's debt, is quite probably a desirable policy outcome. A sustained period of even higher inflation (5%-6%) is not improbable as economies accelerate and the velocity of money picks up (watch bank lending). However, demographics and the rise of AI are deflationary forces still to emerge, while we think de-carbonization of Western economies will be highly inflationary and more economies / markets more volatile. Eventually, a prolonged period (5-7 years) of inflation seems the least painful way of dealing with future debt/entitlement costs.

Reducing the national debt via debt liquidation, à la the 1930s, is unlikely to occur without a major Bretton-Woods type event. A monetary re-set is coming anyway as China / Russia push away from the USD as the reserve currency. We can find few examples in history of governments with deteriorating balance sheets (which much of the developed world has), paying off their debt. The problem is how to create inflation that lasts. Is a Dollar devaluation coming?

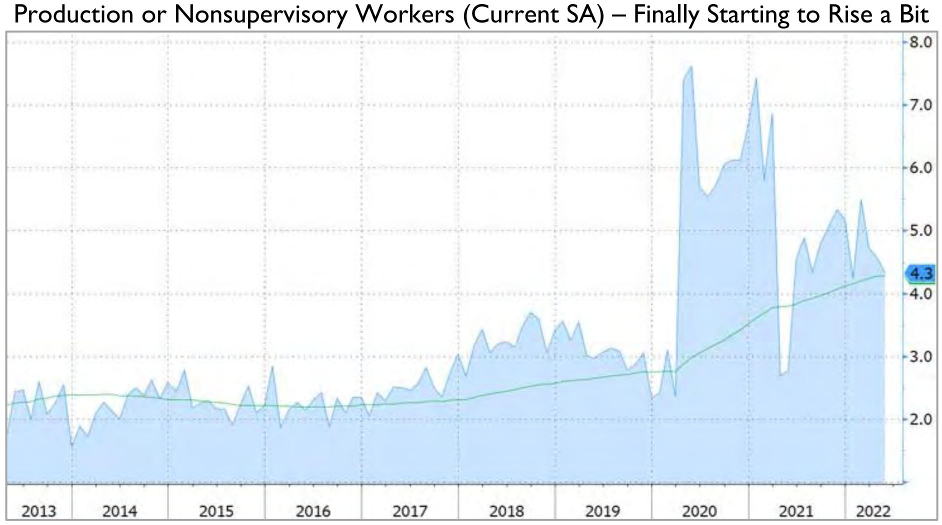
For a balanced view of the commodity picture, we use the Economist Dollar All Items Index is -2.5% on a year-over-year basis. Commodity prices are surging and the bull market in commodities may have lots of room and time to run.

US consumers have considerably reduced their financial obligations, in fact, they are near multi-decade lows. Meanwhile, ten million millennials are moving into their house buying years, yet seem cautious about overextending themselves for a home purchase, if they want a house at all. Suburban housing is the next wave of purchases, particularly in the South and Southeast. Changes in the taxable deduction for property tax/mortgage interest has crimped demand for high end homes, especially in high tax states on the East Coast/California. SALT related states are seeing population outflows. New housing starts, especially for affordable housing should grow over the next few years, as long as credit is available and mortgage rates do not march meaningfully higher, which they are doing with 30-year mortgages over 5%.

With a massive technological shift taking place, the economy needs a new growth driver and possibly an asset class to leverage. The new economic drivers? New technologies which will change health care, education delivery, manufacturing as well as developing second, third and fourth tier cities across the country. AI, Green Technology and 5G will play important roles in the new economy. Some of these technologies are deflationary, but the people/products they replace will be supported by increased government programs/spending which tend to be inflationary. Perhaps even more important is the cost of the components for new technologies are now subject to sanctions and supply chain disruptions which are inflationary.

US Real Weekly Earnings Y-O-Y

Production or Nonsupervisory Workers (Current SA) – Finally Starting to Rise a Bit



Source data: Bloomberg LP

Is the US About To Go on A Hyper Credit Cycle? Is the Credit Cycle About To Accelerate In Order to Inflate Away US Debt?

► How will the Fed and the government eventually deal with record debt, which has been run up by US consumers, corporations and the government, much of it accumulated since 1994? There are also significant unfunded Federal liabilities, perhaps as high as $50 trillion plus already. Many categories of US debt, EM debt and global debt, are at new highs and seem likely to go higher. The Total World Debt to GDP ratio is around 340%. If we include state/local debt as well as contingent liabilities, this ratio could be well above 500%. Global debt / GDP has surged above 300% since 2008 as over $70 trillion was added to global debt totals. Inflating that debt away may be the only viable, long-term alternative, unless a renegotiation of Treasuries and government debt around the world takes place, entitlement liabilities are reformed, and a permanent path toward lower budget deficits / government liabilities is established. At some point between 2024-2030, US tax receipts may be exceeded by Social Security, interest payments on Federal debt, and other Federal liability payments. Either taxes must go up, benefits are cut, both policies are enacted, or inflating these obligations away which seems the most likely policy course.

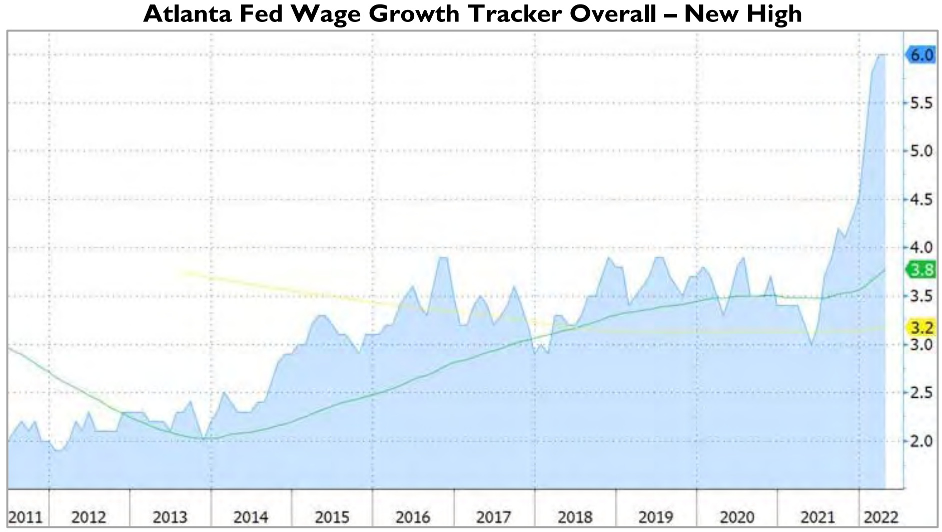
Additional buyers will be needed to purchase new Treasury supply and refunding of old debt. Will it be the Fed? Foreigners? US Banks whose government bond inventories are low? With additional bond supply coming $2-$3 trillion over 2-3 years and the banks potentially the largest buyers, the US budget deficit may be more fundable than previously thought. Much depends on how the repo desk behaves.

US Government Bond Dealers Inventory

Source: Bloomberg LP

Does a financial stability / very low unemployment / low growth model at the Fed now supersede the old inflation mandate? These seem to be the new monetary targets as reaching 2% inflation was elusive at first, but now inflation has reached escape velocity and the Fed has been charged with reining it in. This will not be easy as the Fed does not have the tools to do so in the short run.

Atlanta Fed Wage Growth Tracker Overall – New High



Courtesy of Bloomberg LP

According to this week's calculations, the implied inflation rate for a 10-year bond is 0.26%. Real rates have been rising, while real wages are falling.

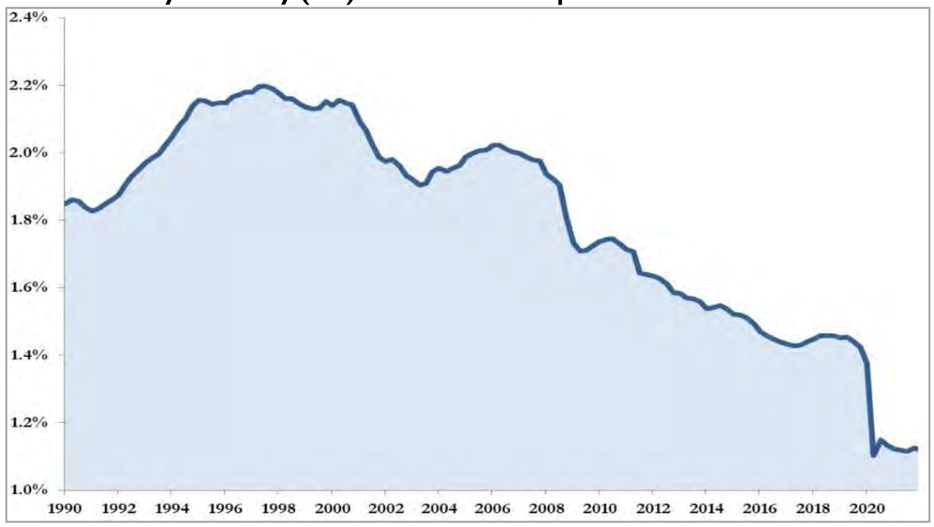
US Inflation Expectations and 10-Year Interest Rate Spread

Courtesy of Bloomberg

Liquidity and Money Supply

▶ M2, is at +8.04%. Rate hikes are just beginning. The velocity of money still has not picked up.

Velocity of Money (M2)—About to Collapse? What Does it Mean?



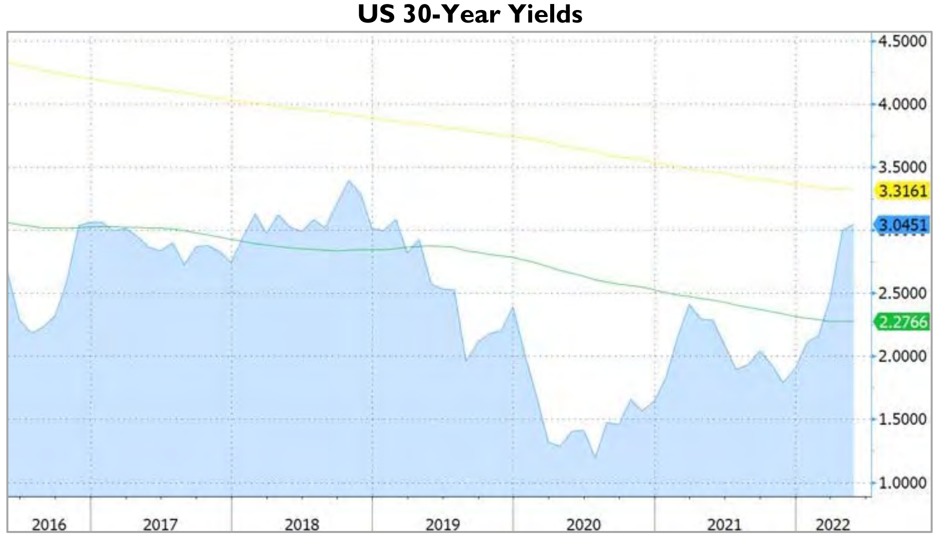
Courtesy of Bloomberg LP

Summary

▶ CPI has broken out well above the 6% level. CPI could come in at 9%-10% before year end and approach the 1979-1980 highs at 14%-16%, if the Fed does not move aggressively. When CPI settles down, probably some time in 2023, the expected range is 5%-6% which would still leave real yields negative across the entire yield curve.

We have no allocation to Treasuries in our model. If the government bond market sells off too sharply and the stock market becomes disorderly, look for the Fed to ease up far sooner than expected. Near term, on the charts, the target on 10-year yields is 3.50%, then higher. The Michigan survey and CPI figures may have spurred the Fed into action. A 4% 10-year Treasury may be necessary to attract bond buyers.

US 30-Year Yields



Source: Bloomberg LP

Data courtesy of:
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Board of Governors of the Federal Reserve System
Investor's Business Daily
Thechartstore.com

US Long Bond Model (Price)—Intermediate Trend Indicator is Negative

		As of 6/8/2022		As of 5/3/2022	
Comm Px and Inflation					
1)	Economist (All Items Index) % change y-o-y	+ 2.5%	– –	+ 1.3%	– –
2)	CRB (All Commodities)	633.3	– –	643.2	– –
3)	PCE—One-Year Momentum	+4.9%	–	+5.2%	–
4)	Gold ($/ounce)	$1,857.05	0	$1,867.79	0
5)	Crude Oil (WTI) ($/bbl)	$121.85	– –	$102.41	–
6)	Atlanta Fed GDPNow GDP Forecast	+0.8%	+	+1.6%	+
7)	Atlanta Fed Wage Growth Tracker Overall	+ 6.0%	–	+ 6.0%	–
Fed Policy					
9)	Two-Year/10 Yr (bps)	+26 bps	+	+19 bps	+
10)	Broad Money Growth M-2 (y-o-y) weekly	+8.0%	+	+9.9%	+
11)	Foreign Holdings (U.S. Debt/y-o-y)	-4.0	–	-+3.3	–
12)	Narrow Money Growth M-1 (y-o-y) weekly	+ 8.9%	+	+ 11.1%	+
Budget & Fiscal Policy & Fundamentals					
13)	Deficit/Surplus Trend	Negative	– –	Negative	– –
14)	Tax Policy	Positive	+	Positive	+
15)	Dollar (DXY)	102.32	++	103.47	++
16)	Dealers Inventories	Positive	++	Positive	++
Global Rates (Long Rates)					
17)	Japan		–		–
18)	ECU		– –		– –
Sentiment					
19)	Market Vane Sentiment (Bulls)	47%	–	58%	–
20)	MACD	Neutral	0	Positive	+
21)	Stochastics	Neutral	0	Positive	+
Bond Total					
	Positive		9		9
	Neutral		3		2
	Negative		15		14
22)	Ten-Year T-Bond Yield	3.01%		2.96%	
23)	Three-Month T-Bill Yield	1.22%		0.88%	

Source Data:

Barron's (6/6/2022) — 11), 16), 19)
Bloomberg — 2), 5), 6), 9), 13), 15), 17), 18), 20), 21)
Economist (6/11/2022) — 1), 3), 4), 7), 8), 10), 12)

Short-Term Model - Slightly Negative
Intermediate-Term Model is Negative

	As of 6/8/2022	Rating	
Rate of Change			
1) 52-Week Rate of Change, S&P, year-over-year	-2.2%	0	
2) 52-Week Rate of Change, 90- Day T-Bills, year-over-year	+11bps	–	
3) 52-Week Rate of Change, 10-Year T-Bonds, year-over-year	+146bps	– –	
Supply			
4) IPO/Secondaries	Negative	–	
5) Vicker's Insider Sell/Buy Ratio	Negative	– –	
Demand			
6) Stock Buybacks/M & A	Positive	+	
7) Accumulation/Distribution Net (S&P 500)	E	– –	
8) Mutual Funds Purchase/Redemptions (X-Money Funds)	0.82x	0	
9) Short Interest Ratio	3.40x	+	
Valuation			
10) S&P 500 P/E (Forecast)	17.5x	–	
11) EPS S&P500 Qtrly Positive Surprises	Negative	–	
12) S&P 500 Dividend Yield	1.62%	0	
Fundamentals			
13) CPI + S&P P/E (Forecast)	25.5x	– –	
14) Monetary Phase	Negative	– –	
15) Dollar Directional	Negative	–	
16) Earnings QOQ Trend	Negative	–	
17) P/E Compression/Expansion	Negative	–	
18) Liquidity (Credit & Money Supply)/Money Velocity	Negative	–	
19) Credit Spreads/EMBI/Corporate/TED/Yield Curve	Neutral	0	
20) GDP Forecast	Negative	–	
Technical/Sentiment			
21) Market Vane (Bulls)	47%	0	
22) Put/Call Ratio	1.45	++	
23) Percent Stocks Above 200-Day Moving Average	34.0%	0	
24) Stochastics (S&P)	Positive	+	
25) MACD (S&P)	Positive	+	
26) VIX/Curve	Negative	–	
27) Cycles	Negative	–	
28) Bitcoin	Negative	–	
Bond Model		-1	
Net Technical - Short Term		0	
Total Score	**6 Positives**	**6 Neutral**	**24 Negative**

All indicators have a possible rating range of -14

***Data* Sources:**

Barron's 6/6/2022– *21), Jan*
Bloomberg – 1), 2), 3), 4), 11), 12), 13), 14), 18), 19), 20), 23), 26) 27)
Investor's Business Daily 6/6/2022 – *5), 7), 8), 9), 10), 24), 25)*

LARRY'S TRAVEL/SPEAKING SCHEDULE

June 13-20 ______________________________ *Europe*

Spelling Deficiency Revealed
One of our projects at military leadership school called for us to speak in front of the class on a topic picked by our instructor. A classmate gave an impassioned speech on the benefits of drinking liquor. Alcohol, he insisted, warded off colds, kept you alert, and even made you steadier on your feet.

"Good job," said our instructor when he finished. "Only one thing: Your topic was the benefits of drinking liquids, not liquor."

Supervision Required
When hiring new staff at the public library, I always ask applicants what sort of supervision they'd be most comfortable with. One genius answered, "I've always thought Superman's X-ray vision would be cool."

Easy Answer
There was a typo on a test I was taking. Instead of "(D) none of the above," it said "(D) one of the above." So I circled it.

Parapraxis
"You need to be careful when writing comments," our principal told the faculty. He held a report card for a Susan Crabbe. A colleague had written, "Susan is beginning to come out of her shell."

Cushy Job
My daughter Marina worked in my law office while she attended graduate school. One morning a call came in for her. I said she wasn't in yet and offered to take a message. The caller said she'd phone back later.

At 11:00 a.m., the caller tried again, and I reported that Marina had gone to lunch.

The last call came in at 3:30 p.m. "I'm sorry," I said, "she's left for the day. May I take a message?"

"Yes," the caller replied. "How can I get a job with you?"

Polite But Stupid Thief
A jeweler standing behind the counter of his shop after hours was astounded to see a suspicious looking man in a black ski mask come hurling headfirst through the window.

"What on earth are you up to? What happened?!" the jeweler demanded.

"I'm terribly sorry," said the man, "I forgot to let go of the brick."

Seared Conscience
The district attorney was cross-examining the murderess on the witness stand.

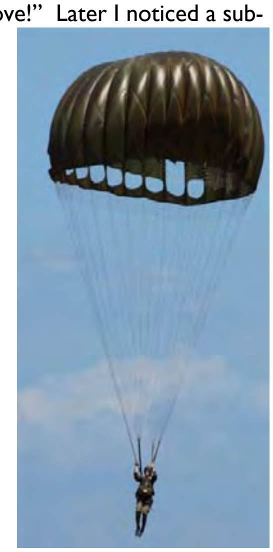
"And so after you had poisoned the coffee and your husband sat at the breakfast table partaking of the fatal dosage, didn't you feel any qualms? Didn't you feel the slightest pity for him knowing that he was about to die and was wholly unconscious of it?"

"Yes," she answered. "Come to think of it…there was just a moment when I sort of felt sorry for him."

"And, when was that?"

"When he asked for the second cup."

Surrounded by Death Threats
As a new paratrooper, I was struck by all the T-shirts on base emblazoned with the motto "Death from above!" Later I noticed a submariner with a T-shirt that declared "Death from below!"



Then, standing in line for chow one day, I was served by an Army cook. His T-shirt had a skull with a crossed fork and spoon underneath and yet another warning: "Death from within!"

Lacking In Honor
Since he runs a pawnshop, I decided to ask a friend of mine to appraise my grandfather's violin. "Old fiddles aren't worth much, I'm afraid," he explained.

"What makes it a fiddle and not a violin?" I asked.

"If you're buying it from me, it's a violin. If I'm buying it from you, it's a fiddle."

Insufficient Brains
I requested identification from a department-store customer who had just written a personal check for her purchase. After fumbling through her purse, she presented me with what she said was the only thing that bore both her name and address.

It was a notice of insufficient funds from her bank.

Falsely Accused
Do I look that shady? I just got a GPS for my car, and my first trip with it was to a drugstore. Since the manual said not to leave it in the car unattended, I brought it with me into the store. While there, the GPS came alive, and a voice stated, "Lost satellite contact."

I wasn't embarrassed until a woman turned to me and said, "Your ankle bracelet monitor is talking to you."

Necessary Change
An old man strode in to his doctor's office and said, "Doc, my druggist said to tell you to change my prescription and to check the prescription you've been giving to Mrs. Smith."

"Oh, he did, did he?" the doctor shot back. "And since when does a druggist second guess a doctor's orders?"

The old man says, "Since he found out I've been on birth control pills since February."

Good News, Bad News
Dr. Smith asks his patient, "Which do you want first, the good news or the bad news?"

The patient replies, "Give me the good news."

Dr. Smith says, "You're about to have a disease named after you."

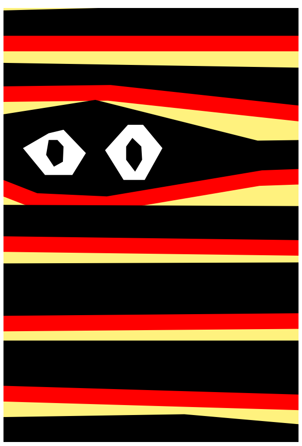
Extreme Measures
One night our dog suddenly began barking almost every night at around 3 a.m.

Irritated and sleepy, my husband, Larry, searched the back yard for what might have disturbed this otherwise peaceful animal.

For three days he found nothing amiss. When the dog woke up the neighborhood a fourth night at 3 a.m. with frantic barking Larry finally snuck around the house through the alley only to discover our quiet neighbor, the last man you'd suspect of wrongdoing, throwing pebbles over the fence at the dog.

My husband demanded to know what he was doing.

"My mother-in-law is visiting," the embarrassed neighbor explained. "If she gets woken up in the middle of the night one more time she says she'll leave."



Self-Absorption
I was sound asleep when the telephone jarred me awake.

"Hi!" It was my peppy mother-in-law. She proceeded to rattle on about the busy day she had ahead and all the things that awaited her the rest of the week.

"Mom," I interrupted. "It's five in the morning."

"Really? What are you doing up so early?"

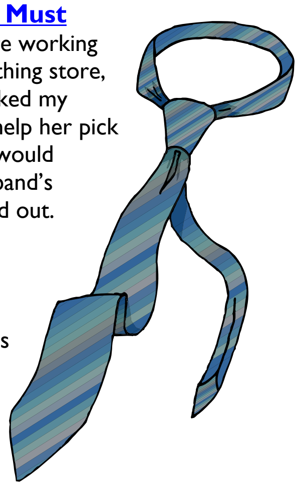
Learned Behavior Without Understanding
We visited our newly married daughter, who was preparing her first Thanksgiving dinner. I noticed the turkey thawing in the kitchen sink with a dish drainer inverted over the bird. I asked why a drainer covered the turkey.

Our daughter turned to my wife and said, "Mom, you always did it that way."

"Yes," my wife replied, "but you don't have a cat!"

Comfort A Must
While we were working at a men's clothing store, a customer asked my coworker to help her pick out a tie that would make her husband's blue eyes stand out.

"Ma'am," he explained, "any tie will make blue eyes stand out if you tie it tight enough."



Groaner
Jimmy: 'Hey, Mike! How's your new pet fish doing? You told me he was really something special.'

Mike: 'To tell the truth, I'm really disappointed in him. The guy who sold him to me said I could teach him to sing like a bird.'

Jimmy: 'What? Let me get this straight… You bought a fish because you thought you could teach him to sing like a bird?'

Mike: 'Well, yeah. After all, you know, he's a parrot fish.'

Jimmy: 'Now listen, Mike, while you might be able to teach a parrot to sing, you're never going to get anywhere with a parrot fish.'

Mike: 'That's what you think! It just so happens this fish CAN sing. The thing is, he's terribly off-key and it's driving me crazy. Do you know how hard it is to tuna fish?'

Possible New Airline Fees
With airlines adding fees to fees, The Week magazine asked its readers to predict the next surcharge they'll levy for something previously free.

1. In the unlikely event of loss of cabin pressure, oxygen masks will drop down. To start the flow of oxygen, simply insert your credit card…

2. $100 On-Time Departure Fee; $25 Delay Complaint Fee.

3. View seating (formerly window seats), $10; Access seating (formerly aisle seats), $10-$20 to use roll-away stairs to enter or exit the aircraft in lieu of no-charge rope-ladder alternative.

4. $9 fee for bumping your head on the overhead bin as you take your seat; $3 additional penalty for looking up at the bin after you bump into it.

Time To Return
When I asked my friend if she was planning to attend church, she just shook her head. "I haven't gone in a long time," she said. "Besides, it's too late for me. I've probably already broken all seven commandments."

Thirsty Car
As the owner of an old clunker, I was used to dealing with a variety of car breakdowns. One day at the supermarket, just after I had filled my trunk with groceries, I noticed a stream of fluid pouring out of the bottom of the car. I knew I had to get home before the car was once again out of action.

When I arrived I asked my husband to take a look at the problem. Expecting the worst, I braced myself for his diagnosis. When he came back in, he was smiling. "It's apple juice," he said.

Convenient But Not Practical
My niece was thrilled to hear that a new car wash was opening up in her neighborhood. "How convenient," she said. "I can walk to it!"

Earthlings
Out in space two alien forms are speaking with each other.

The first spaceman says, "The dominant life forms on the earth planet have developed satellite-based weapons."

The second alien, who looks exactly like the first, asks, "Are they an emerging intelligence?"

The first spaceman says, "I don't think so…They have them aimed at themselves."

Expensive Mistake
"For sale," read the ad in our hospital's weekly newsletter, "sleeveless wedding gown, white, size 8, veil included. Worn once, by mistake."

Things That Never Happened On Star Trek

1. The Enterprise runs into a mysterious energy field of a type it has encountered several times before.

2. The Enterprise visits a remote outpost of scientists, who are all perfectly all right.

3. Some of the crew visit the holodeck, and it works properly.

4. The crew of the Enterprise discover a totally new life-form, which later turns out to be a rather well-known old life form wearing a funny hat.

5. The crew of the Enterprise are struck by a mysterious plague, for which the only cure can be found in the well-stocked Enterprise sick-bay.

6. The Captain has to make a difficult decision about a less advanced people which is made a great deal easier by the Starfleet Prime Directive.

7. The Enterprise successfully ferries an alien VIP from one place to another without serious incident.

8. An enigmatic being composed of pure energy attempts to interface to the Enterprise's computer, only to find out that it has forgotten to bring the right leads.

9. A power surge on the Bridge is rapidly and correctly diagnosed as a faulty capacitor by the highly-trained and competent engineering staff.

10. The Enterprise is captured by a vastly superior alien intelligence which does not put them on trial.

11. The Enterprise is captured by a vastly inferior alien intelligence which they easily pacify by offering it some chocolate.

12. The Enterprise visits an earth-type planet called "Paradise" where everyone is happy all of the time. How-ever, everything is soon revealed to be exactly what it seems.

13. A major Starfleet emergency breaks out near the Enterprise, but fortunately some other ships in the area are able to deal with it to everyone's satisfaction.

14. The Enterprise is involved in a bizarre time-warp experience which is in some way unconnected with the Late 20th Century.

15. Kirk (or Riker) falls in love with a woman on a planet he visits, and isn't tragically separated from her at the end of the episode.

16. Counselor Troi states something other than the blindingly obvious.

17. The warp engines start going haywire, but seem to sort themselves out after a while without any intervention from boy genius Wesley Crusher.

18. Spock (or Data) is fired from his high-ranking position for not being able to understand the most basic nuances of one in three sentences that anyone says to him.

Source:
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THE INSTITUTIONAL STRATEGIST

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