CONWAY• JARVIS LLC
Investment Outlook

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Update

Inflation Data Offers a Hint of Trend Change

Those expecting any relief in May from last month's market decline have, so far, been disappointed. With the exception of one notable rally prior to today's, the indexes persisted in their downward march to Thursday's post-pandemic lows. Yesterday's close left the NASDAQ off 31% from its November record high. That's well beyond the bear market threshold of 20% that the S&P 500 is flirting with at -19%. The DOW remains the leading performer at -15.5%. Whether the "stock market" is in a bear market is debatable by some, but this decline certainly feels and looks like one to most investors. The brutal repricing of the Tech sector and anything remotely dependent upon it has taken most portfolios into correction territory. Seeing that and the selling pressure that has met almost every rally leads us to believe a bottom, or investable low, is approaching.

We've been on the lookout for a slowing or halt to the increase of the CPI and PPI numbers as a prelude to any trend change derived from the Fed's recent actions. We saw that in the month-to-month decline of headline inflation, the first since summer of last year. This was validated by a commensurate decline of the M/M PPI (Producer Price Index). *Reading* any analysis of the data would yield a conclusion that inflation, while still near its high of 40 years ago, might have peaked. That could be confirmed by the next CPI report on June 10th, just prior to the next FOMC meeting. If relying on visual media (TV) for analysis, you'd be convinced the Fed has bungled the recovery and that killing demand through recession is the only cure for inflation. Our advice? Don't watch.

While the possibility of recession does remain on the table, it's nowhere near a probability. Stocks are telling one story, bonds perhaps another. This week's bond market reversal lent credence to the prospect that peak inflation may be upon us. The 10-year treasury yield, 1.51% in January, had spiked to 3.12% before dropping to Wednesday's 2.817%. We see that as an indication of the bond market backing away from the worst-case scenario of Fed tightening, a lengthy series of outsized rate hikes that trigger the recession prophesied by the stock market decline. History suggests the stock market tends to overshoot actual outcomes both to the upside *and* the downside. We believe that's what we're seeing from stocks and view the bond market as a more reliable barometer of economic activity and a predictor of outcomes.

Speaking of the bond market, we're seeing a return of opportunistic pricing of short-term fixed income issues. It's been three years since we've been able to place bonds in portfolios and are finding yields attractive when compared to money market returns and CD yields. Stay tuned.

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