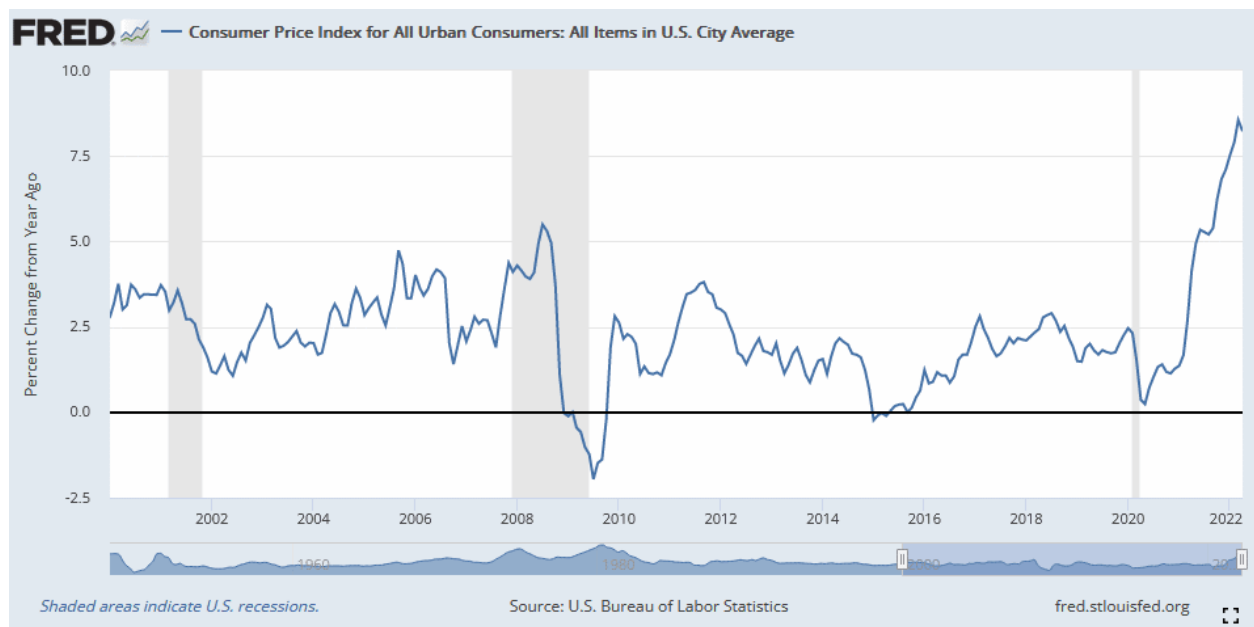


Lael Brainard Squashes Talk of a "Stall"

The following headline hit the wires Thursday morning: *LAEL BRAINARD: VERY HARD TO SEE CASE FOR A PAUSE IN SEPTEMBER*. An optimistic market narrative was taking form that the Fed might stall its interest rate hikes in September after increasing Fed Funds by 50bps in June and July. Brainard squashed those hopes. Lael Brainard was recently confirmed as the Vice-Chair of the Federal Reserve.

Given her stature within the Fed, Lael Brainard's stance takes on much more weight than other Fed members who suggest a stall. Reducing inflation is the Fed's primary goal at this point, and Lael Brainard and most other Fed members will continue to maintain a very hawkish stance to provide confidence to the markets, consumers, and businesses that high levels of inflation are temporary.



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What To Watch Today

Economy

- 8:30 a.m. ET: **Change in Nonfarm Payrolls**, May (323,000 expected, 428,000 prior)
- 8:30 a.m. ET: **Change in Private Payrolls**, May (302,000 expected, 406,000 prior)
- 8:30 a.m. ET: **Change in Manufacturing Payrolls**, May (39,000 expected, 55,000 prior)
- 8:30 a.m. ET: **Unemployment Rate**, May (3.5% expected, 3.6% prior)
- 8:30 a.m. ET: **Average Hourly Earnings**, month-over-month, May (0.4% expected, 0.3% prior)
- 8:30 a.m. ET: **Average Hourly Earnings**, year-over-year, May (5.2% expected, 5.5% prior)

- 8:30 a.m. ET: **Average Weekly Hours All Employees**, May (34.6 expected, 34.6 prior)
- 8:30 a.m. ET: **Labor Force Participation Rate**, May (62.3% expected, 62.2% prior)
- 8:30 a.m. ET: **Underemployment Rate**, May (7.0% prior)
- 9:45 a.m. ET: **S&P Global Manufacturing PMI**, May final (53.5 expected, 53.5 prior)
- 9:45 a.m. ET: **S&P Global U.S. Composite PMI**, May final (53.8 expected, 53.8 prior)
- 10:00 a.m. ET: **ISM Services Index**, May (56.5 expected, 57.1 prior)

Earnings

Pre-market

- No notable companies are expected to report. #2013266080;

Post-market

- No notable companies are expected to report.

Market Trading Update - Rally Continues To Test Overhead Resistance

After two days of a rather soft market, the market rallied despite Lael Brainard's comments on Fed policy. With the MACD buy signal (lower panel) in place, and markets just now getting back to overbought territory, the upward bias remains for now. However, there are multiple levels of resistance ahead that will prove challenging for the markets to conquer short term.

- The initial challenge is the previous February and March bottoms which align with the 38.2% retracement rally from the March highs.
- Next is the 50% retracement level which is coincident with a declining 50-dma.
- The 61.8% retracement level comes next which intersects with the downtrend line from the January peak.
- Then the 200-dma.

If the markets can clear all of that, then all-time highs and a return to the bull market is possible. But there are a lot of hurdles to cross first. We continue to suggest selling rallies as we go.

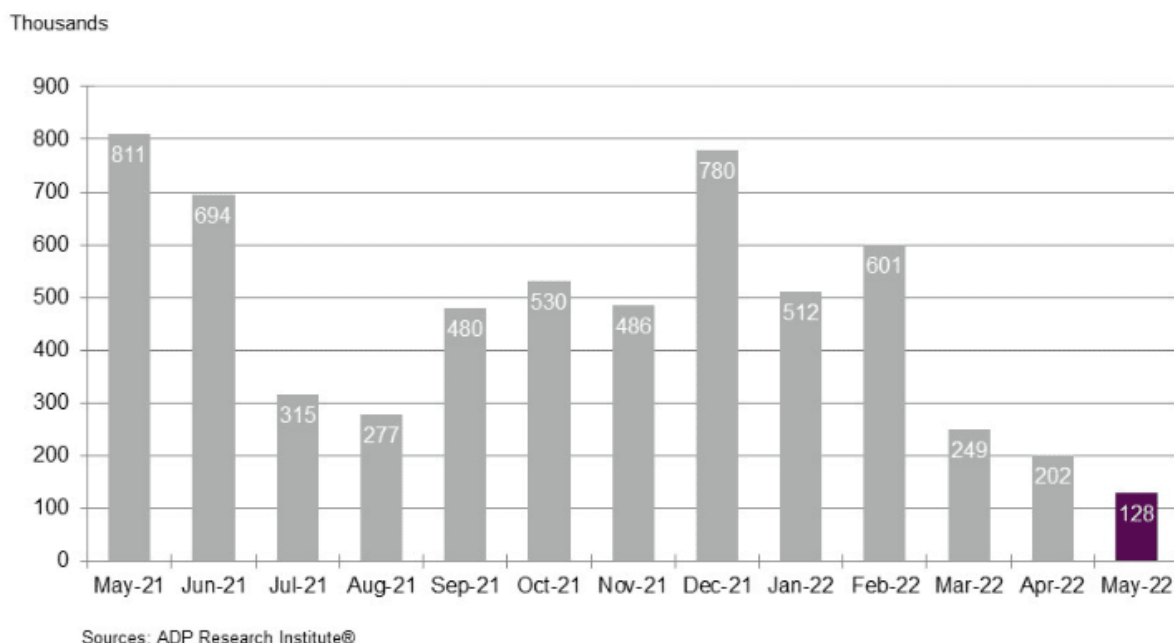


ADP Jobs Report

The [ADP Employment Report](#) showed a slowdown in hiring, with only 128k jobs added in May. Expectations were for a gain of over 300k jobs. The graph below shows that May was the weakest month of job growth in the last year. Further, the trend in job growth has been steadily declining this year.

As we saw last in last month's report, small businesses are losing jobs while medium and larger size companies are adding jobs. Per the ADP report: *"The job growth rate of hiring has tempered across all industries, while small businesses remain a source of concern as they struggle to keep up with larger firms that have been booming as of late."* Inflation, higher wages, and supply line problems are much more difficult for small companies to navigate than larger companies. Size advantage shows up in the broad market indexes as well. The Russell 2000 Small Cap Index is down 18.2% year to date, versus 14.2% for the S&P 500.

Chart 1. Change in Total Nonfarm Private Employment



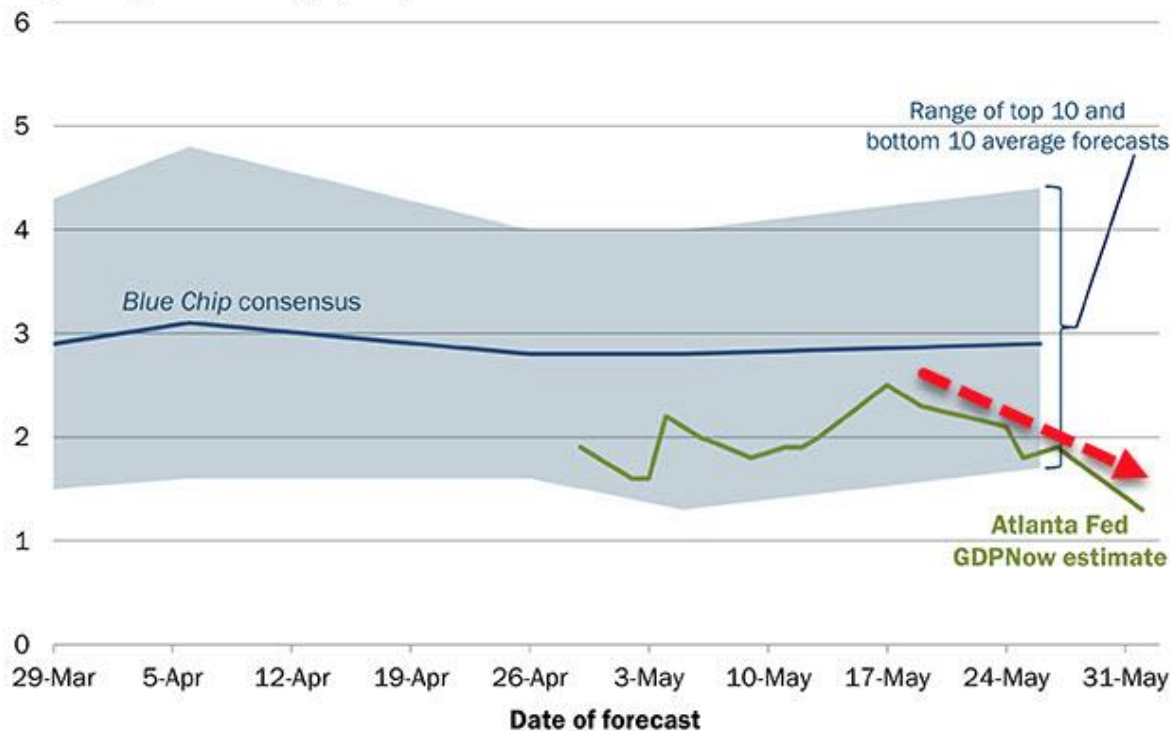
Economic Growth Continues To Weaken

"The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2022 is 1.3 percent on June 1, down from 1.9 percent on May 27.

After this morning's Manufacturing ISM Report On Business from the Institute for Supply Management, and this morning's construction spending report from the US Census Bureau, the nowcasts of second-quarter real personal consumption expenditures growth and real gross private domestic investment growth declined from 4.7 percent and -6.4 percent, respectively, to 4.4 percent and -8.2 percent, respectively." - Atlanta Federal Reserve

Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q2

Quarterly percent change (SAAR)

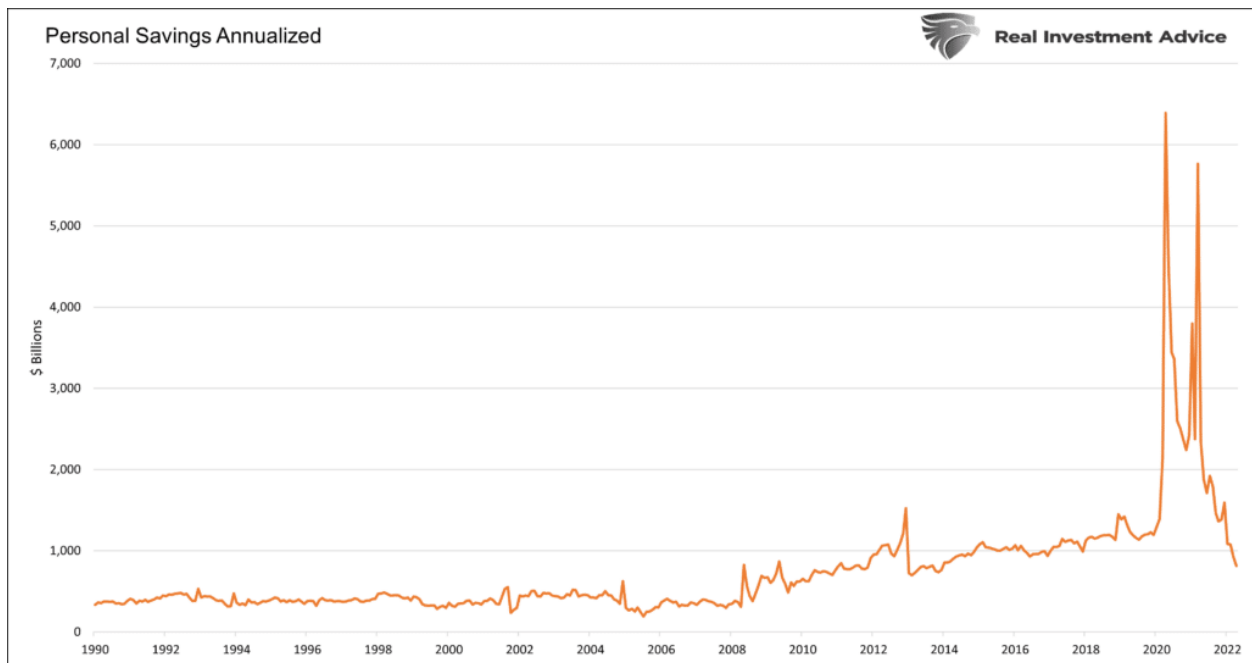


Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

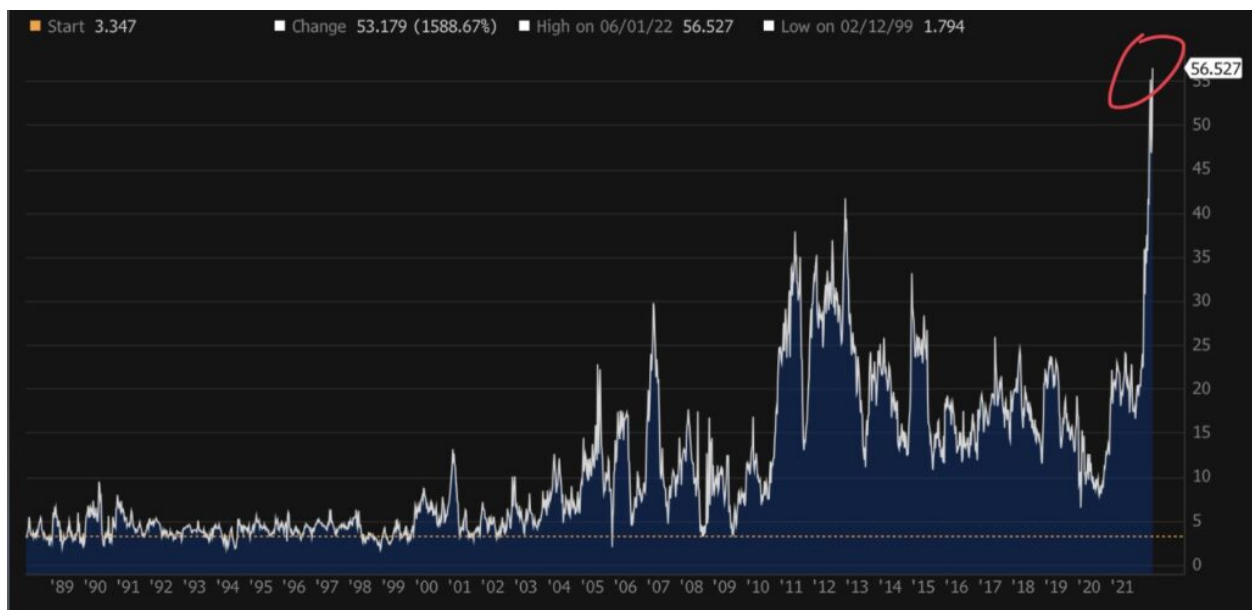
Consumers are Drawing on Savings to Make Ends Meet

A couple of weeks ago, we discussed a surge in revolving credit usage by consumers. At the time, we attributed it to a means of making ends meet for many consumers. Inflation is rising faster than wages leaving lower and middle-class consumers with less purchasing power. To make up for it, they have increased borrowing and drawn down savings, as we share below. Credit card debt and savings will help boost consumption for a while, but both sources of additional cash have their limits. If inflation continues to outpace wages, we suspect consumption will suffer as the additional sources of money dwindle.



Crack Spreads Are Surging

The graph below is the 3-2-1 crack spread. The spread measures the difference in cost between three barrels of crude oil and the sum of two barrels of gasoline and one barrel of diesel. It essentially measures the profit from refining crude into gasoline and diesel oil. The second graph below shows how refiner stocks benefit from the higher crack spreads/larger profit margins.



As shown, Valero, a large refiner (VLO), is up 80% for the year versus 60% for the energy sector (XLE). Crack spreads tend to oscillate. We have no doubt the current extreme spread will normalize. However, given that so much economic activity has been atypical, the spread may widen further before it collapses back to historical levels. The fate of refiners versus the broader energy index will likely follow the crack spread.



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