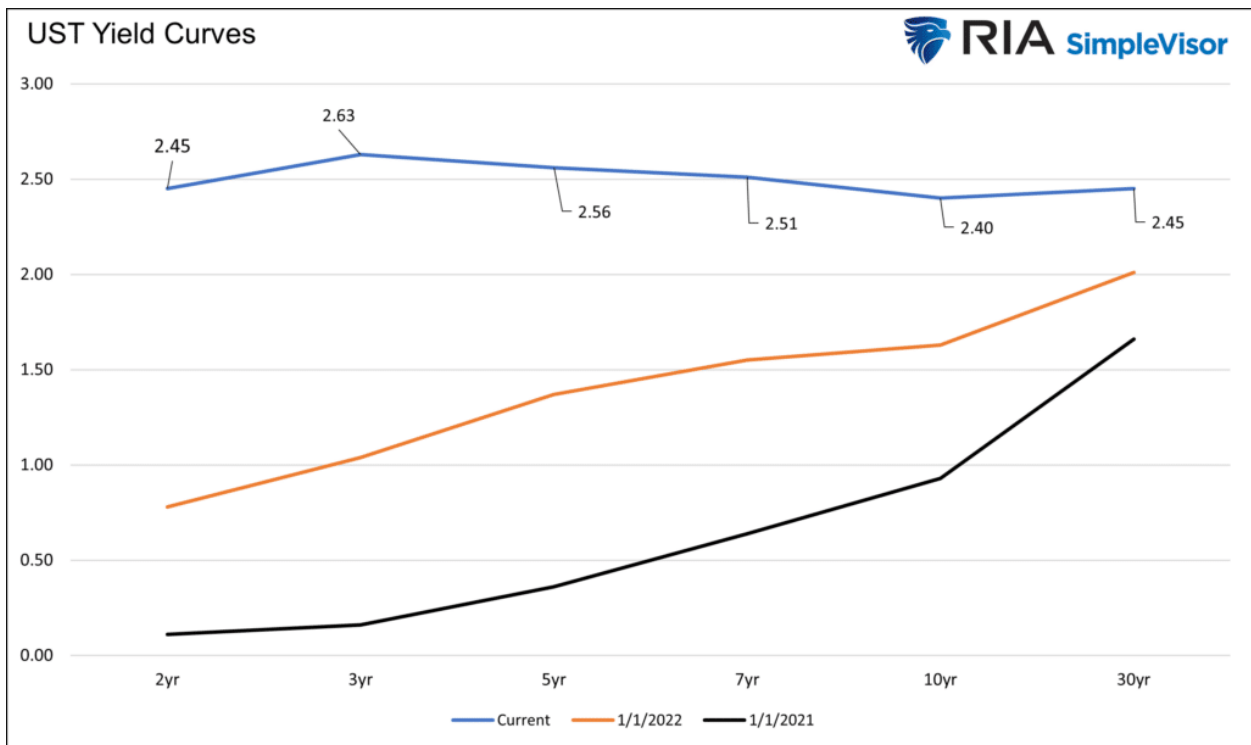


Yield Curve Inverts On Strong Employment Report

The most followed U.S. Treasury yield curve, 2yr vs. the 10yr, is now solidly inverted. The most recent BLS report, detailed below, points to more robust wage growth and an extremely low unemployment rate. The combination should keep inflationary pressures elevated. Friday's ISM report compounded inflationary concerns as the prices paid component rose sharply. As a result, bond traders are pricing in a more aggressive Fed. On Friday, the 2-year yield rose by .15%, over .10% more than 10-year yields. Accordingly, the 2yr/10yr yield curve is inverted by 5bps. Shorter maturity bonds tend to be heavily correlated to Fed Funds, while longer maturity bond investors focus on longer-term expected growth and inflation rates. Inverted yield curves almost always result in a recession, but such may not occur for a year or even more.



[dmc]

What To Watch Today

Economy

- 10:00 a.m. ET: **Factory orders**, February (-0.6% expected, 1.4% in January)
- 10:00 a.m. ET: **Durable goods orders**, February final (-2.2% expected, -2.2% in prior print)
- 10:00 a.m. ET: **Durable goods orders, excluding transportation**, February final (-0.6% expected, -0.6% in prior print)
- 10:00 a.m. ET: **Non-defense capital goods orders, excluding aircraft**, February final (-0.3% in prior print)

- 10:00 a.m. ET: **Non-defense capital goods shipments excluding aircraft** (0.5% in prior print)

Earnings

No notable reports scheduled for release

Market Trading Update

Technically, the pullback on Thursday and Friday was healthy as it began to reverse the more extreme overbought conditions. However, there is more work to do before a better entry point is available.

If the market can hold support at the 200-dma, or even the 50-dma just below, then the market could make another rally attempt later this month. If not, then the rally was reflexive, short-covering, and will retest lows.

Importantly, volume remains weak and with buybacks in blackout for the next couple of weeks. In the short-term limited upside is likely.

[Market technical update](#)

Top 10 Buys & Sells

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These are high conviction stocks that TPA has recommended recently. They are technically positive for Buys or negative for Sells and trading at or near their investment action levels.

April 4, 2022

THIS WEEK'S TOP 10 BUYS AND TOP 10 SELLS

BUYS

| | <u>Ticker</u> | <u>Name</u> | <u>Last Price</u> | <u>Action Price</u> | <u>Distance to Action</u> |
|----|---------------|------------------------------|-------------------|---------------------|---------------------------|
| 1 | SHLS | Shoals Technologies Group | 17.07 | 17.00 | -0.41% |
| 2 | SHOP | Shopify Inc | 693.00 | 690.00 | -0.43% |
| 3 | SPOT | Spotify Technology S.A. | 153.70 | 150.00 | -2.41% |
| 4 | SQ | Block Inc - Ordinary Shares | 133.62 | 130.00 | -2.71% |
| 5 | EVBG | Everbridge Inc | 44.60 | 43.00 | -3.59% |
| 6 | CLOU | Global X Cloud Computing I | 22.30 | 21.50 | -3.59% |
| 7 | CTSH | Cognizant Technology Solut | 90.01 | 86.50 | -3.90% |
| 8 | SKLZ | Skillz Inc - Ordinary Shares | 2.97 | 2.80 | -5.72% |
| 9 | ZM | Zoom Video Communication | 118.02 | 110.00 | -6.80% |
| 10 | BDX | Becton Dickinson And Co. | 262.50 | 240.00 | -8.57% |

SELLS

| | <u>Ticker</u> | <u>Name</u> | <u>Last Price</u> | <u>Action Price</u> | <u>Distance to Action</u> |
|--|---------------|------------------------------|-------------------|---------------------|---------------------------|
| | ACN | Accenture plc | 340.64 | 341.00 | 0.11% |
| | ANSS | Ansys Inc. - Registered Shar | 316.49 | 317.00 | 0.16% |
| | VMC | Vulcan Materials Co | 184.18 | 185.00 | 0.45% |
| | MSI | Motorola Solutions Inc | 238.14 | 240.00 | 0.78% |
| | AAP | Advance Auto Parts Inc | 207.48 | 210.00 | 1.21% |
| | MANH | Manhattan Associates Inc. | 140.12 | 142.00 | 1.34% |
| | CDW | CDW Corp | 177.80 | 181.00 | 1.80% |
| | LFUS | Littelfuse Inc. | 249.18 | 255.00 | 2.34% |
| | TXT | Textron Inc. | 73.03 | 75.00 | 2.70% |
| | ETN | Eaton Corporation PLC | 151.81 | 156.00 | 2.76% |

The Week Ahead

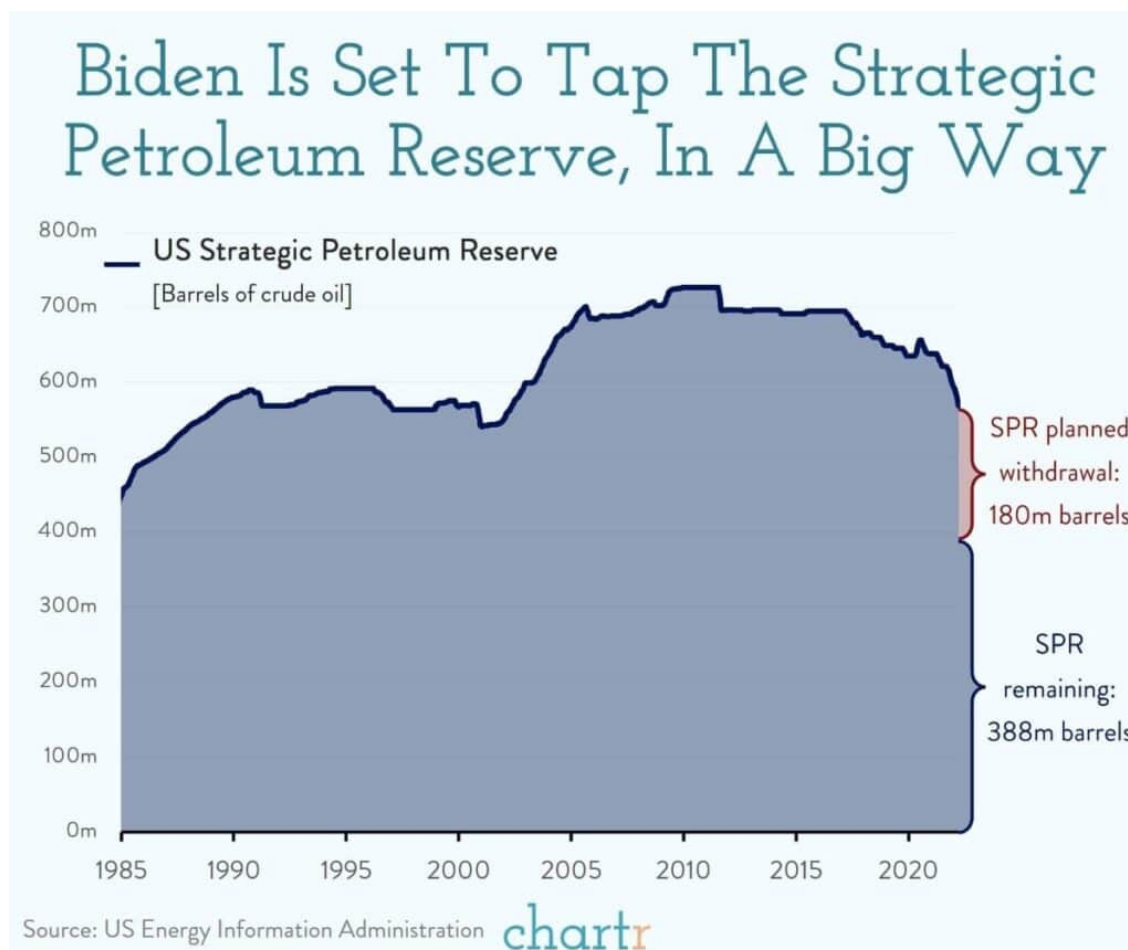
The start of the new quarter will be relatively quiet from an economic perspective. However, we suspect there will be plenty of Fed members speaking. While we think investors are now comfortable with a 50bps rate hike, we are unsure how they will react to QT starting as early as the May 4th FOMC meeting. Keep an eye on the Fed speeches for any guidance on QT and closely track the market's reaction to such comments.

There is little economic data this week. The only data point of note will be ISM-Services. Unlike last Friday's Manufacturing Survey, analysts expect the services survey to increase. Next week the BLS will release CPI, and corporate earnings will begin to trickle out.

Tapping The SPR

"President Biden will release almost one-third of the United States Strategic Petroleum Reserve (SPR), in an effort to curb rising oil and energy prices, which are feeding inflation throughout the US economy. This is the biggest drawdown from the SPR in history... and it's not even close.

There have been only a few **emergency withdrawals** from the SPR since the 1970s, the biggest of which was closer to **30 million barrels**. This latest withdrawal is **180 million barrels of oil**, almost one-third of the **570 million barrels** available at the last count." - Chart

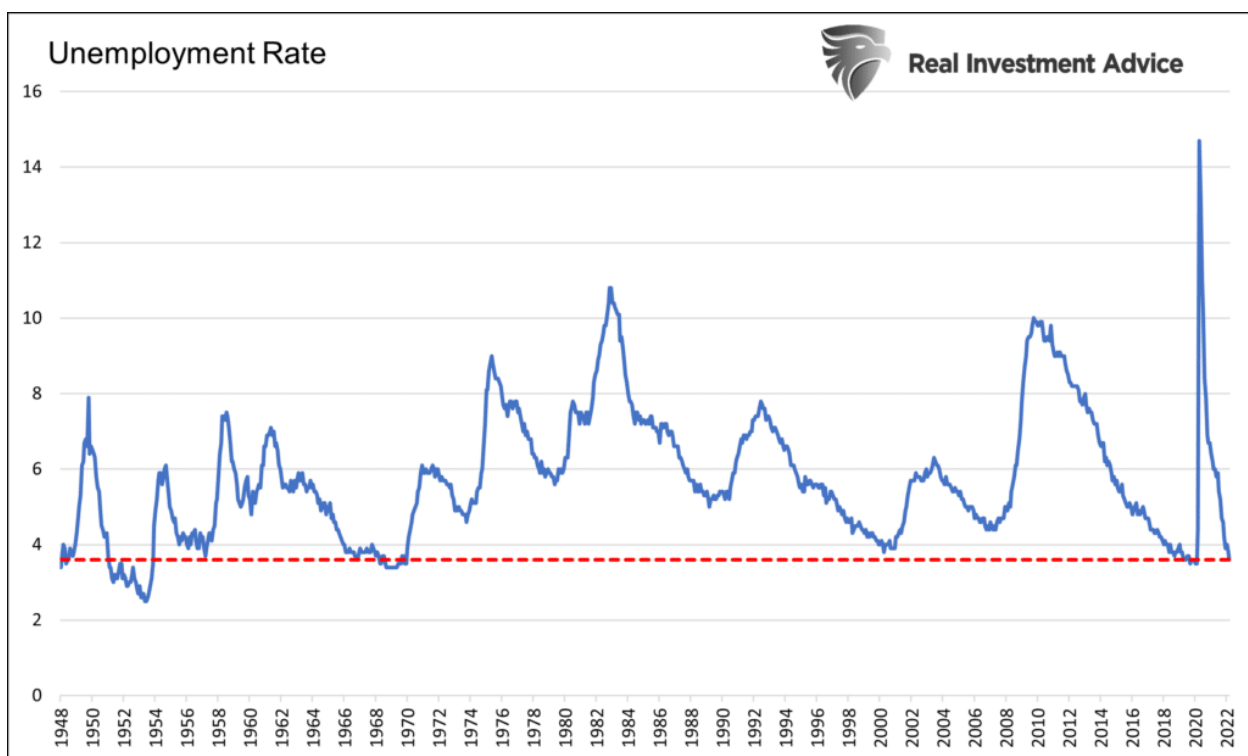
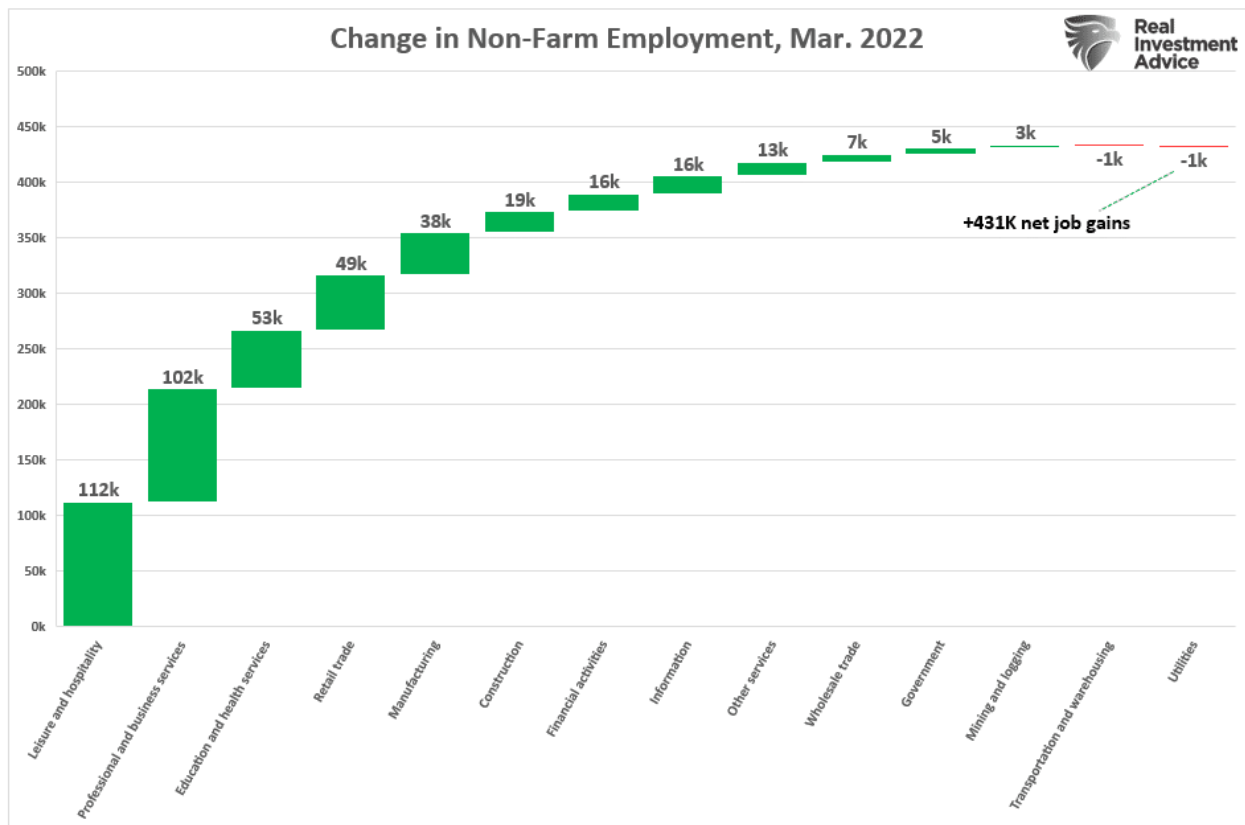


While this may temporarily reduce gas prices at the pump, it presents a bigger supply problem later. Supply growth is limited, However, cheaper gas prices will increase demand simultaneously with replenishing the SPR reserve. As the yield curve inverts, this will only apply more pressure economically as short-term fixes tend to lead to longer-term problems.

There is "no free lunch."

Hot Jobs Market - Cooling Manufacturing Data

The BLS reported that the economy added 431k jobs last month. The number is slightly below expectations, but a +95k revision to January and February data more than made up for the shortfall. The unemployment rate fell to 3.6%. The second graph below highlights just how tight the labor market is. Perhaps more critical to the Fed and monetary policy is the +0.4% monthly increase in average hourly earnings. The jump from last month's revised +0.1% will generate inflationary concerns as higher wages tend to result in stickier inflation. Year over year, average hourly earnings are at a cycle high of +5.6%.



The [ISM Manufacturing Survey](#), a good leading economic indicator, fell slightly from 58.6 to 57.1. While it is still well entrenched in expansionary territory, it is the lowest reading since September 2020. Like employment, the price indexes within the report will be of interest to the Fed. To that end, prices paid rose to 87.1 from 75.6. Charlie Bilello notes the following about the various manufacturer comments within the report: *"The comments in the latest ISM Manufacturing Survey all point to the same thing: supply constraints. Elevated rates of inflation will continue until this changes..."* The second graphic below shows the trend for all subcomponents of the survey are growing but the rate of change is slowing for the large majority of them.

WHAT RESPONDENTS ARE SAYING

- “No letup yet in **supply chain challenges**, especially electronic components. Relying more and more on the broker market.” [Computer & Electronic Products]
- “Customer orders are brisk in the face of **significant price increases**, while we continue to struggle with inbound supplier service and raw material **availability issues**.” [Chemical Products]
- “Generally speaking, the business environment is slowly improving for aerospace component manufacturers. **Supply chain disruptions** and still-extending lead times continue to keep purchasing busy. This further causes reevaluation of the current year’s business plan and cost assumptions.” [Transportation Equipment]
- “Overall business conditions are challenging in both domestic and international transportation. The Russian invasion of Ukraine has created uncertainty in the grain markets, causing **upward pricing pressure**. In addition, **inflationary pressures across all categories** have made it challenging to manage cost and profitability.” [Food, Beverage & Tobacco Products]
- “**Prices are increasing** on steel and steel products after a slight decrease from highs last month. Transportation **costs are going up** significantly with the increase in fuel prices.” [Machinery]
- “**Backlog continues** to be strong as we ship **delinquent orders** resulting from COVID-19 slowdowns.” [Fabricated Metal Products]
- “Demand continues to be strong. **Backlog is still increasing** — currently at about three months of production. Availability of purchased material continues to constrain production, causing the increased backlog.” [Electrical Equipment, Appliances & Components]
- “Business continues to be strong, with incoming sales higher but **still combating labor and material issues like availability and inflation**. Still determining impact of the Russian invasion of Ukraine.” [Furniture & Related Products]
- “The **supply situation is getting worse**, with lead times extending over 12 months, material not available, and suppliers not quoting or taking orders. **Prices on the rise daily.**” [Miscellaneous Manufacturing]
- “**Supply chain is still unstable**. While we have seen improvements, there are still a lot of issues that have yet to be resolved.” [Primary Metals]

| Index | Series Index Mar | Series Index Feb | Percentage Point Change | Direction | Rate of Change | Trend* (Months) |
|------------------------|---------------------|---------------------|----------------------------|------------|-------------------|--------------------|
| Manufacturing PMI® | 57.1 | 58.6 | -1.5 | Growing | Slower | 22 |
| New Orders | 53.8 | 61.7 | -7.9 | Growing | Slower | 22 |
| Production | 54.5 | 58.5 | -4.0 | Growing | Slower | 22 |
| Employment | 56.3 | 52.9 | +3.4 | Growing | Faster | 7 |
| Supplier Deliveries | 65.4 | 66.1 | -0.7 | Slowing | Slower | 73 |
| Inventories | 55.5 | 53.6 | +1.9 | Growing | Faster | 8 |
| Customers' Inventories | 34.1 | 31.8 | +2.3 | Too Low | Slower | 66 |
| Prices | 87.1 | 75.6 | +11.5 | Increasing | Faster | 22 |
| Backlog of Orders | 60.0 | 65.0 | -5.0 | Growing | Slower | 21 |
| New Export Orders | 53.2 | 57.1 | -3.9 | Growing | Slower | 21 |
| Imports | 51.8 | 55.4 | -3.6 | Growing | Slower | 5 |
| OVERALL ECONOMY | | | | Growing | Slower | 22 |
| Manufacturing Sector | | | | Growing | Slower | 22 |

Manufacturing ISM® *Report On Business*® data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.
*Number of months moving in current direction.

Morningstar Pans ARK Innovation and Cathie Woods

Morningstar downgraded its rating on the ARK Innovation ETF (ARKK) from neutral to negative. They note that since 2020, ARKK has been "*one of the worst-performing funds.*" They also warn that the firm has no risk management personnel. Per Financial News- "*Explaining the fund's downgrade in a research report, Morningstar analyst Robby Greengold said Wood has **doubled down on her perilous approach?** in the hopes she can repeat her success two years ago.*"



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