RIA Advice

Restoration Hardware Has Telling Commentary

Restoration Hardware (RH) stock is trading over 10% lower as it missed earnings expectations despite announcing a stock split. Because Restoration Hardware reports a month later than most companies, they can provide fresher guidance on recent consumer trends. To this point, Restoration Hardware executives warn they have seen a 10-12% slowdown in demand over the past couple of weeks. Consider the following statement from its CEO- "Our business changed just a few weeks ago. We're reporting later, *so we are seeing the trends now. There's been a broader slowdown in our industry, and it has to be in other industries too. I'd be surprised if others aren't seeing the same thing. Maybe we're the only ones?"*

We doubt Restoration Hardware is the only company seeing a sudden slowdown. With earnings season starting in a few weeks, we will shortly learn more about how inflation, weak consumer sentiment, and higher gas prices weigh on economic activity.

What To Watch Today

Economy

- 8:30 a.m. ET: **Challenger Job Cuts**, year-over-year, March (-55.9% during prior month)
- 8:30 a.m. ET: **Personal Income**, month-over-month, February (0.5% expected, 0.0% during prior month)
- 8:30 a.m. ET: **Personal Spending**, month-over-month, February (0.5% expected, 2.1% during prior month)
- 8:30 a.m. ET: **Real Personal Spending**, month-over-month, February (-0.2% expected, 1.5% during prior month)
- 8:30 a.m. ET: **PCE deflator, month-over-month**, February (0.6% expected, 0.6% during prior month)
- 8:30 a.m. ET: **PCE deflator, year-over-year**, February (6.4% expected, 6.1% during prior month)
- 8:30 a.m. ET: **PCE core deflator, month-over-month**, February (0.4% expected, 0.5% during prior month)

- 8:30 a.m. ET: **PCE core deflator, year-over-year**, February (5.5% expected, 5.2% during prior month)
- 8:30 a.m. ET: **[Initial Jobless Claims]**, week ended March 26 (196,000 expected, 187,000 during prior week)
- 8:30 a.m. ET: **[Continuing Claims]**, week ended March 19 (1.34 million expected, 1.35 million during prior week)
- 9:45 a.m. ET: **MNI Chicago PMI**, March (57.0 expected, 56.3 during prior month)

Earnings

Pre-market

- **Walgreens Boots Alliance**&#2013266080;(WBA) to report adjusted earnings of $1.37 on revenue of $33.32 billion

Post-market

- **BlackBerry**&#2013266080;(BB) to report adjusted earnings of N/A on revenue of $187.00 million

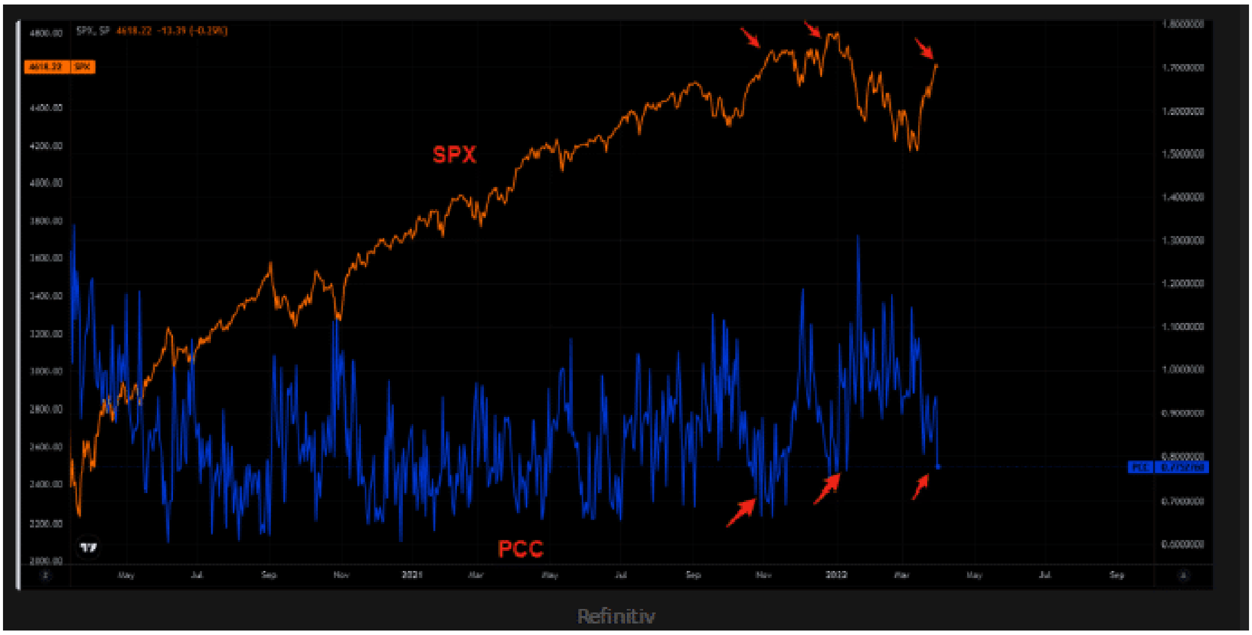
Market Trading Update - Slight Pullback

As we enter the last trading day of the quarter, window dressing is nearing completion. As noted above Restoration Hardware is a warning to the broader market as we head into the Q1-earnings season. Volume has dropped off markedly, and the market remains very overbought and is threatening a sell signal. With the market well-deviated above the 50-dma, some caution is advised for now.

Everyone Hates Puts Again

One thing that tends to work well over time is to sell the stuff everybody is chasing and buy the stuff everyone hates.

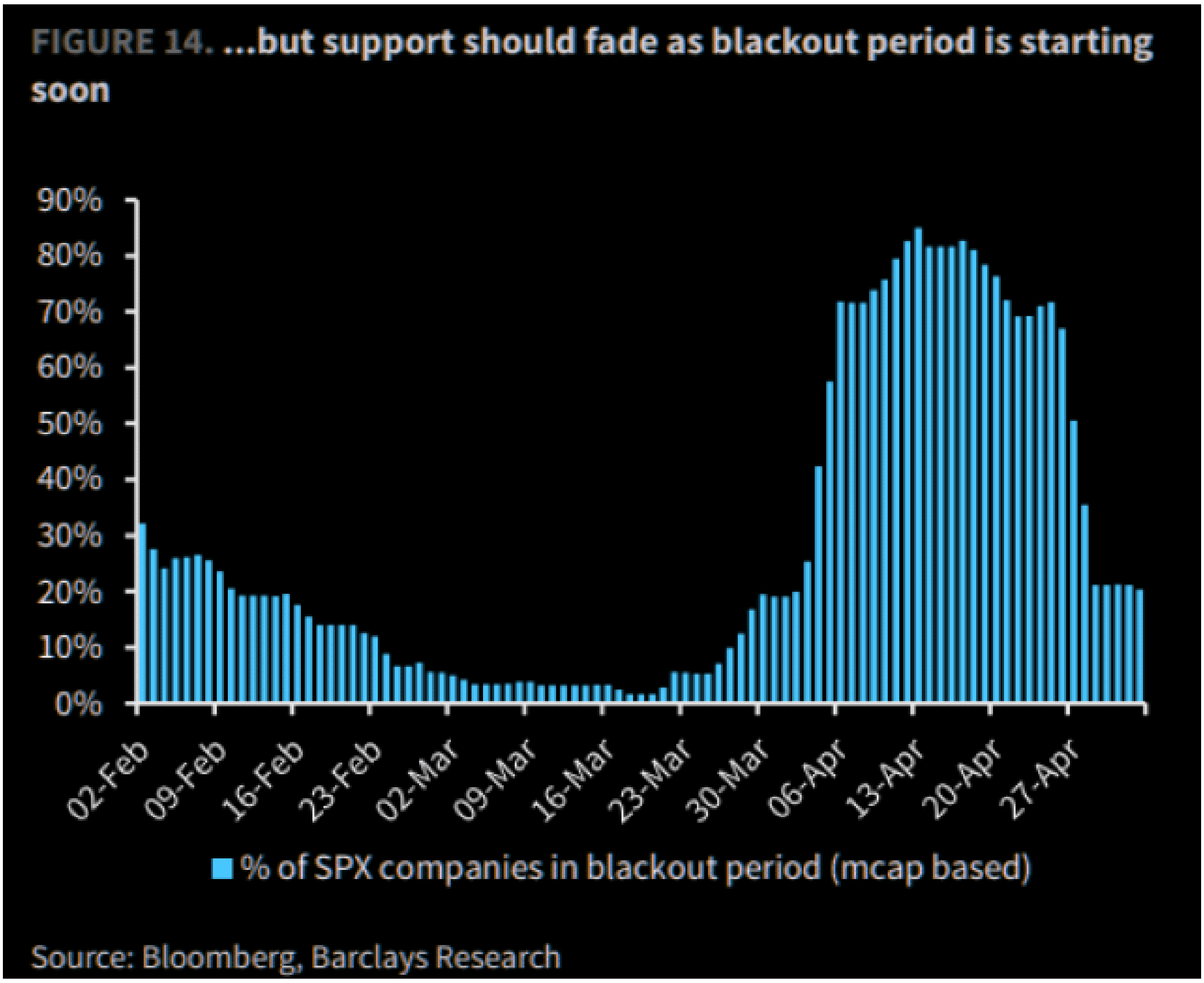
Right now...everyone hates puts.



Important Buyer Going Blackout

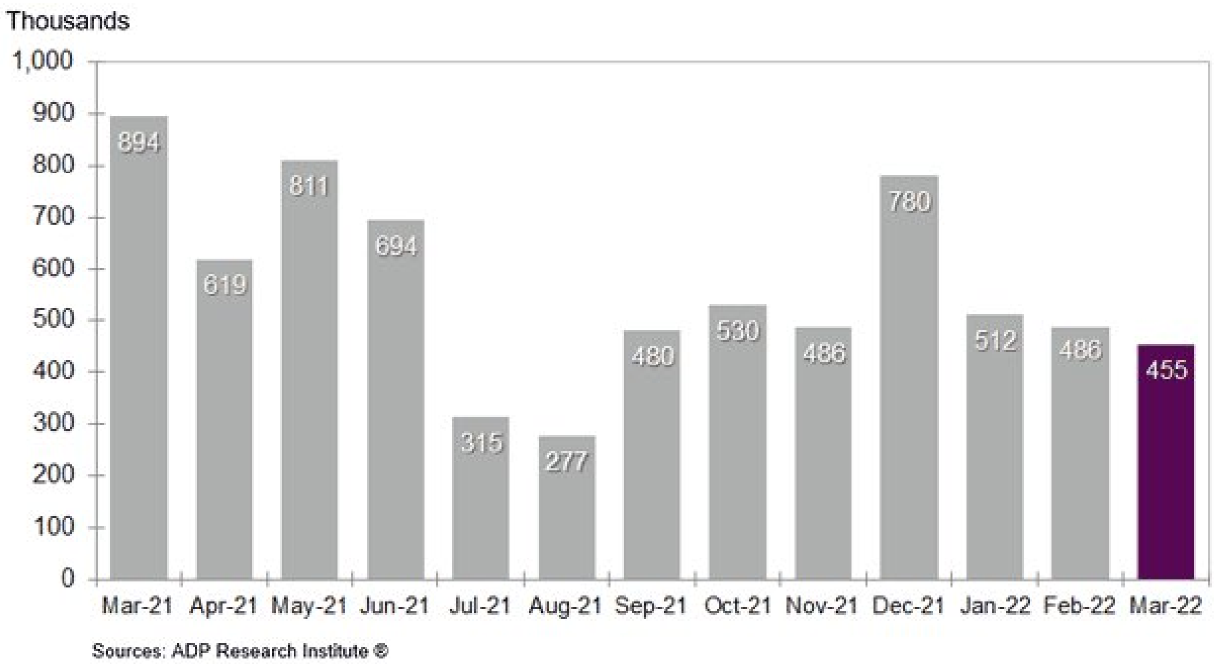
For those thinking we are back into a bull market, such could be the case. However, an important buyer of equities is going into a *"blackout"* over the next month.

Corporations.



ADP Foreshadows A Strong BLS Jobs Report on Friday

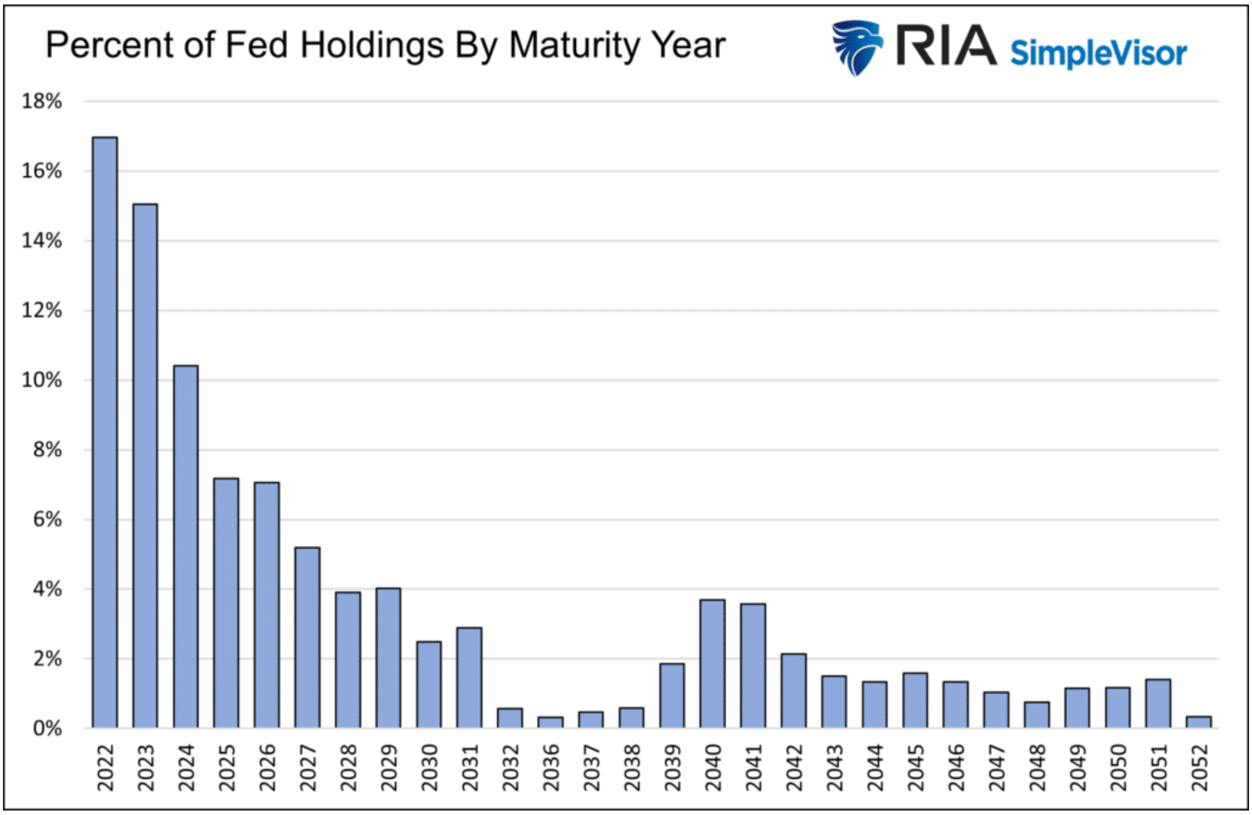
ADP reports the economy added 455k jobs in March. As shown below, the gains continue a year-long streak of incredible job growth. Consider that from 2013 through 2019, ADP added on average196k jobs per month. The BLS is similar, adding 206k jobs over the same period. The unemployment rate is currently 3.8%, the second-lowest reading since 1969. Strong jobs growth and the historically low unemployment rate will continue to pressure wages higher. While good news for employees, it will likely result in inflation and offset the benefits of higher wages. The Fed has been increasingly concerned about the tight labor market and its implications for inflation. On Friday, another strong BLS jobs report will likely encourage them to raise rates by 50bps and start QT at their next meeting on May 3rd.



Is Yield Curve Control (YCC) Possible

The Bank of Japan (BOJ) is offering to buy unlimited amounts of ten-year notes to cap its bond yields. With yields rising rapidly in the U.S., some in the media are asking if the Fed would do something similar. Outright buying of Treasuries, as the BOJ is doing, will not happen here anytime soon. Japan is doing QE which is inflationary. With inflation running hot, the Fed is in no position to stoke it further. However, the Fed could use the upcoming QT to conduct yield curve control (YCC). This would entail selling longer-term bonds and replacing maturing bonds with shorter-term bonds. Such action would likely steepen the yield curve. In our latest article - [Fed Liquidity Drain is Coming]() -we share our thoughts on this:

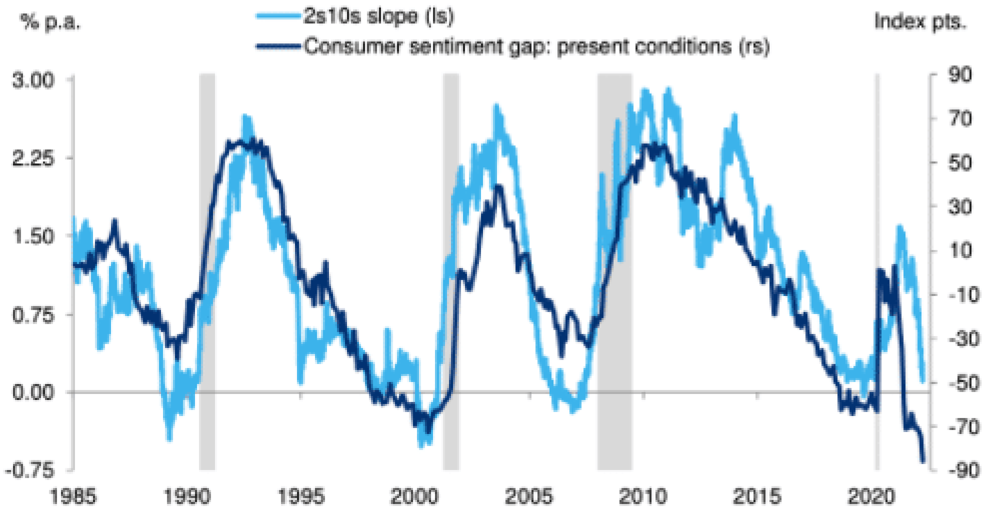
> *Some Fed watchers say the Fed may sell bonds and use QT to affect the yield curve. While we would put nothing past them, the limited number of longer-term bonds they have for sale makes any meaningful yield curve control unlikely. We think they will avoid selling longer-term bonds. Yields have risen significantly over the past few months. With mortgage rates near 5% and corporate yields rising sharply, the Fed will likely want to limit any additional economic harm higher rates will cause.*



Recession Warning Recap

In Wednesday's Commentary, we talked about the latest Consumer Confidence readings and, in particular, weakness in future expectations versus stability in the survey of the current conditions. As we showed in a graph, similar divergences as we have today were all followed by a recession. We have also written recently about how yield curve inversions followed by yield curve steepening is a precursor for recessions. Today we share a graph from Deutsche Bank which compares those two indicators. As the graph shows, a recession is likely on the horizon. Recession odds will increase further once the yield curve starts steepening and current conditions weaken versus expectations. Stock investors may ignore the current warning. However, we caution the more serious warning, when the two lines below start moving upward, is not one to ignore.

Figure 2: Consumer sentiment gap signals curve inversion has further to run



Note: Sentiment gap is the difference between the present condition components of the UMICH and Conference Board surveys. Source: FRB, UMICH, Conference Board, Haver Analytics, Deutsche Bank

---

Please ***[subscribe to the daily commentary](#)*** **to receive these updates every morning before the opening bell.**