Musk Takes A Stake in Twitter

Tesla's CEO, Elon Musk, announced he has accumulated a 9% stake in Twitter (TWTR). Shares of TWTR are up nearly 25% on the news. Before the announcement, TWTR shares were off about 65% from February 2021. From an investment perspective, Elon Musk's rationale is worth thinking about. Is he using recent price weakness to acquire the company or just betting on a company he believes is cheap? If Elon Musk is considering buying the company, is he trying to change social media? He refers to TWTR as a "de facto public square" and complains about its policies that silence certain users and political views. Holders of Meta and other social media sites should also pay attention to Musk's acquisition.

[dmc]

What To Watch Today

Economy

- 8:30 a.m. ET: **Trade balance**, February (-$88.5 billion expected, -$89.7 billion in January)
- 9:45 a.m. ET: **S&P Global U.S. Services PMI**, March final (58.9 expected, 58.9 in prior print)
- 9:45 a.m. ET: **S&P Global U.S. Composite PMI**, March final (58.5 expected, 58.5 in prior print)
- 10:00 a.m. ET: **ISM Services Index**, March (58.5 expected, 56.5 in February)

Earnings

- 4:00 p.m. ET: **Array Technologies** (ARRY) is expected to report an adjusted loss of $0.08 per share on revenue of $212.92 million

Market Trading Update

The "deflation trade" is back on with Technology stocks rallying and commodity stocks lagging. Overall the market remains in an overall downtrend, but with markets currently overbought and on a sell signal, it will be important for support at the 50-dma to hold if markets are going to move higher this month.

Home Prices and CPI

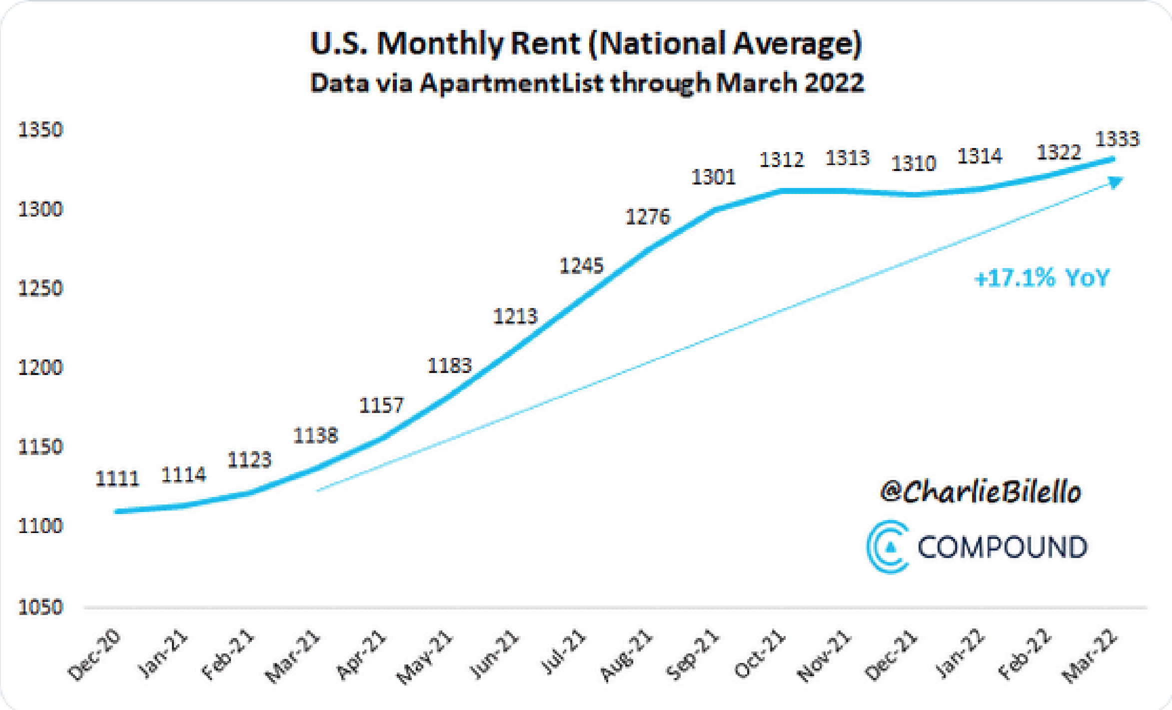
We expect year-over-year CPI figures to stabilize and decline over the next 3-6 months. This is not necessarily because inflation on a monthly basis is weakening, but the math behind the year-over-year calculations. Inflation started spiking a year ago. The current monthly inflation has to run higher than year-ago levels for the year-over-year figures to rise further. For context, CPI last month was .79%. The monthly figures for last March, April, May, and June are as follows: .63, .64, .71, .88. Monthly inflation has to run higher than those figures for the year-over-year rate to rise.

While the math argues for a flat to lower annual CPI, the sharp increase in housing and rental prices is concerning. As Charlie Bilello tweets below, the CPI is woefully behind accurate price levels. Given that it represents a third of CPI, a pickup in CPI housing would more than offset the friendly math coming down the pike.

Charlie Bilello @charliebilello

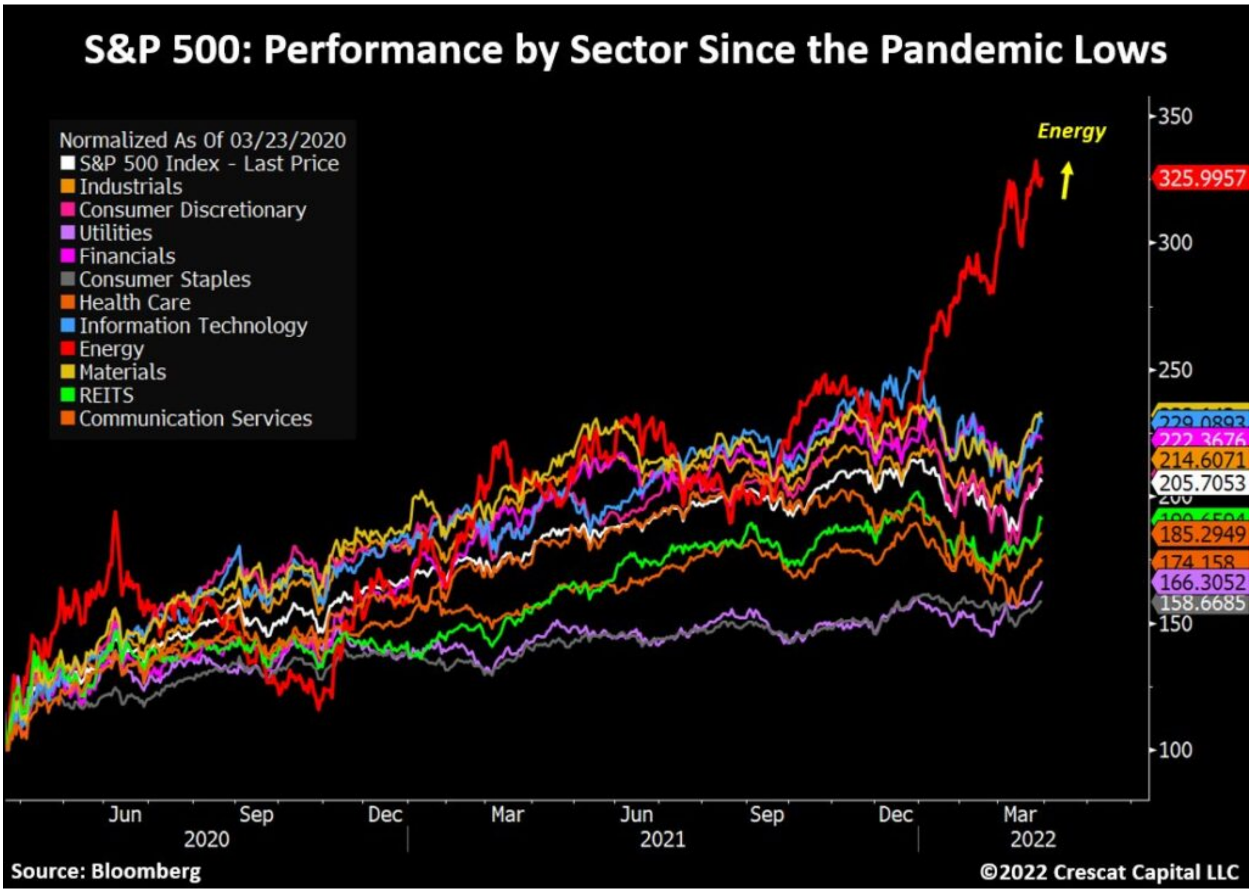
US rents hit a new high again in March, up 17% over the prior year.

So you have home prices up 19% and rents up 17% while the largest component of CPI (shelter @ 33% of the index) is reporting housing inflation at only 4.7% over the last year.



Energy Stocks are Dominating

The graph below from Crescat Capital highlights the complete dominance of energy stocks since the Pandemic lows in March 2020. Interestingly, even by October 2020, energy was the worst-performing sector since the lows of March, making its outperformance even more stunning.



April is a Bullish Month

The table below from Topdown Charts shows that April is the best month to own stocks in terms of average return, using data back to 1964. While the summary data is bullish, it is worth noting that 26% of the Aprils in the time frame were negative.

Monthly Return Stats for the S&P500 1964-2020

	Avg Return	% Positive	Best	Worst	Std Dev
Jan	1.1%	60%	13%	-9%	5.0%
Feb	0.0%	54%	7%	-11%	3.9%
Mar	0.9%	63%	10%	-13%	3.9%
Apr	1.7%	74%	13%	-9%	3.9%
May	0.2%	58%	9%	-8%	3.7%
Jun	0.2%	58%	7%	-9%	3.3%
Jul	0.6%	51%	9%	-8%	4.1%
Aug	0.1%	56%	12%	-15%	4.8%
Sep	-0.4%	47%	9%	-12%	4.3%
Oct	0.9%	60%	16%	-22%	6.0%
Nov	1.4%	68%	11%	-11%	4.4%
Dec	1.3%	72%	11%	-9%	3.4%

Source: Topdown Charts, Refinitiv topdowncharts.com

Bond vs. Stock Yields

Over the last few weeks, we have shown how U.S. Treasury bonds of various maturities are at or near 30-40 year declining trendlines. The graph below compares the 10-yr UST yield less the dividend yield on the S&P 500. Each time the differential hits the upper trend line, stock prices suffered (lower graph). Currently, the differential is breaking above the trend line. The bearish argument is that stock dividend yields are too low versus Treasury rates, and therefore, prices must go down to bring them back to fair value. The bullish side would argue that the absolute difference is still meager in the grand scheme of things.

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