# Treasury Auction Scares Bond Investors

Yesterday, the U.S. Treasury auctioned off $34 billion of ten-year notes. Despite yields rising sharply the last few weeks, there was weak demand for the notes. To wit, the Treasury note was trading at 1.69% before the auction. They were auctioned at a yield of 1.72%, resulting in a 3% tail. Per ZeroHedge, that is the largest tail since at least 2016. As we suspected in Monday's Commentary, this will be a volatile week for bonds. Tuesday's CPI data, detailed below, coupled with the ten-year auction and today's thirty-year Treasury auction, will generate volatile trading flows. After the smoke clears this afternoon, we should have a better technical outlook on bond yields.

[dmc]

## What To Watch Today - Earnings Season Begins

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications,** week ended April 8 (-6.3% during prior week)
- 8:30 a.m. ET: **PPI final demand,** month-over-month, March (1.1% expected, 0.8% during prior month)
- 8:30 a.m. ET: **PPI excluding food and energy,** month-over-month, March (0.5% expected, 0.2% during prior month)
- 8:30 a.m. ET: **PPI excluding food, energy, and trade,** month-over-month, March (0.5% expected, 0.2% during prior month)
- 8:30 a.m. ET: **PPI final demand,** year-over-year, March (10.6% expected, 10.0% during prior month)
- 8:30 a.m. ET: **PPI excluding food and energy,** year-over-year, March (8.4% expected, 8.4% during prior month)
- 8:30 a.m. ET: **PPI excluding food, energy, and trade,** year-over-year, March (6.6% expected, 6.6% during prior month)

### Earnings

#### Pre-market

- **BlackRock (BLK)**&#2013266080;to report adjusted earnings of $8.83 on revenue of $4.81 billion
- **Delta Air Lines (DAL)**&#2013266080;to report adjusted losses of $1.26 on revenue of $8.07 billion
- **Fastenal (FAST)**&#2013266080;to report adjusted earnings of 45 cents on revenue of $1.68 billion
- **First Republic Bank (FRC)**&#2013266080;to report adjusted earnings of $1.90 on revenue of $1.4 billion
- **JPMorgan (JPM)**&#2013266080;to report adjusted earnings of $2.72 on revenue of $31.44 billion

- **Bed, Bath & Beyond (BBBY)**&#2013266080;to report adjusted earnings of 13 per share on revenue of $2.08 billion

**Post-market**

- **Rent the Runway (RENT)**&#2013266080;to report adjusted losses of 68 per share on revenue of $63.3 million

## Market Trading Update

Yesterday morning, the market bounced even as CPI came in hotter than expected. However, not long after the Fed's Lael Brainard spooked the market, and the Treasury auction, by reiterating her hawkish comments:

> ***"The Fed will move 'expeditiously' to raise interest rates*** *and return surging inflation to its 2% target, and added that **a decision on the balance sheet 'could be as soon as May, which would lead to reductions in that balance sheet starting in June.'"** - Zerohedge*

With that news, the bonds and stocks both sold off with the S&P holding below the 50-dma support. However, that selloff pushed the market deeper into oversold territory suggesting we will likely see a counter-trend rally by next week.
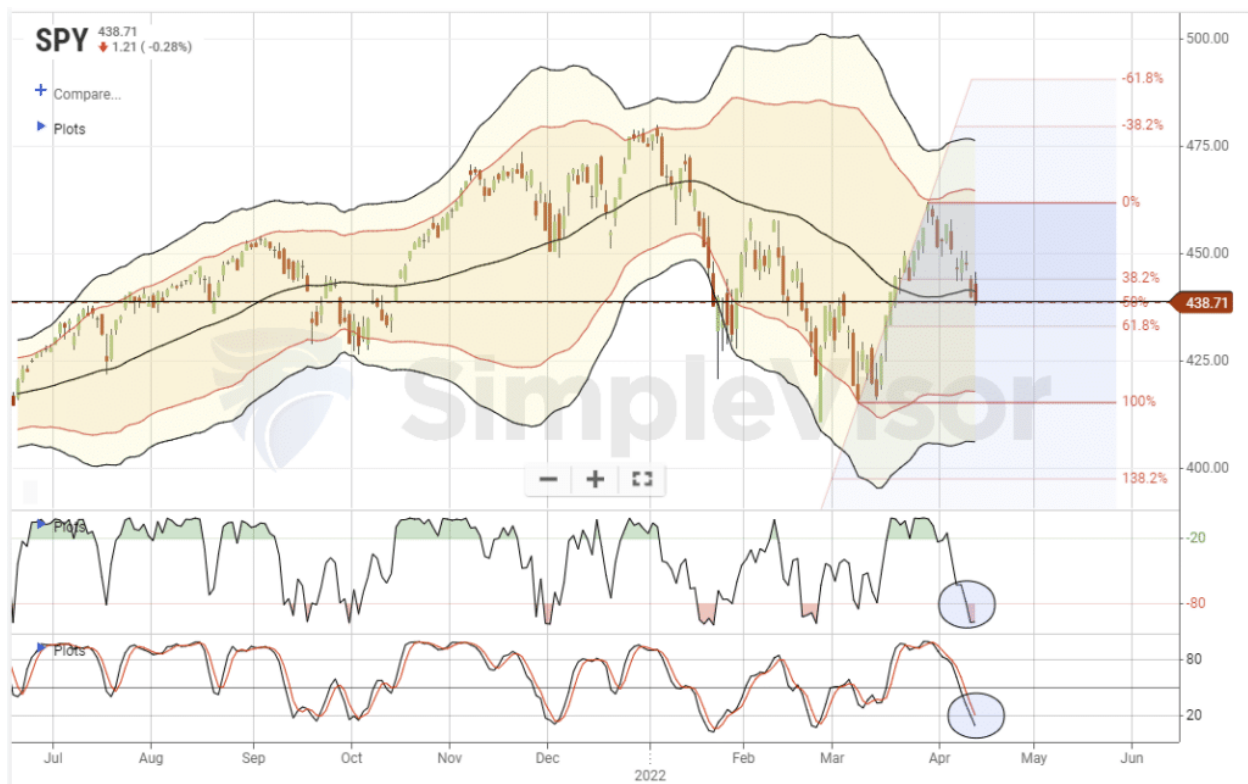


## Fox Business Interview

I spent a few minutes with Charles Payne yesterday discussing bear market rallies, the biggest risk to the market, and positioning thoughts for later this year.

https://twitter.com/LanceRoberts/status/1513956248781266949?s=20&t=NOzgARZ4Yr3XIZYycpTG

# CPI

The CPI report had something for everyone. For those worrying about inflation, March's price index rose by 1.2%, the biggest monthly jump in over 15 years. Further, the year-over-year rate increased to 8.5%, the highest annual inflation rate since 1981. Both figures were 0.1% above expectations. There was a silver lining. The monthly core rate, excluding Food and Energy, rose .3%, the slowest pace since September and below expectations of .5% and last month's .5%. The Fed prefers the core inflation rate. This report may be an early signal to the Fed that price pressures are abating.

## CPI

**Released On 4/12/2022 8:30:00 AM For Mar, 2022**

|  | Prior | Consensus | Consensus Range | Actual |
|---|---|---|---|---|
| CPI - M/M | 0.8 % | 1.1 % | 0.6 % to 1.4 % | **1.2 %** |
| CPI - Y/Y | 7.9 % | 8.4 % | 7.7 % to 8.6 % | **8.5 %** |
| Ex-Food & Energy- M/M | 0.5 % | 0.5 % | 0.4 % to 0.6 % | **0.3 %** |
| Ex-Food & Energy- Y/Y | 6.4 % | 6.6 % | 6.3 % to 6.7 % | **6.5 %** |

The Bloomberg table below breaks down the CPI report into its subcomponents. Gasoline accounts for 3.8% of CPI and singlehandedly accounts for more than half of the monthly increase. Shelter, including rents and implied house prices, rose 0.5% or about 6% annually. That rate pales compared to the 20% increases in rents and home prices. The monthly contribution of oil should decline going forward, but shelter, accounting for a third of CPI could pick up substantially. At this point, we think the shelter is the most crucial variable in predicting CPI. On a side note, the upward pressure from used cars is finally waning. Used cars dropped in price for the second month in a row.

| | Weight | March 2022 | Feb. 2022 | Jan. 2022 | Dec. 2021 | Nov. 2021 | Oct. 2021 | March NSA YOY% |
|---|---|---|---|---|---|---|---|---|
| All items | 100.0% | 1.2% | 0.8% | 0.6% | 0.6% | 0.7% | 0.9% | 8.5% |
| ex-food/energy | 79.05% | 0.3% | 0.5% | 0.6% | 0.6% | 0.5% | 0.6% | 6.5% |
| ex-food | 86.60% | 1.3% | 0.8% | 0.6% | 0.6% | 0.7% | 0.9% | 8.5% |
| ex-energy | 92.45% | 0.4% | 0.6% | 0.6% | 0.6% | 0.6% | 0.6% | 6.8% |
| ex-food/energy/shelter | 46.353 | 0.2% | 0.5% | 0.8% | 0.6% | 0.6% | 0.7% | 7.5% |
| Energy | 7.55% | 11.0% | 3.5% | 0.9% | 0.9% | 2.4% | 3.7% | 32.0% |
| Energy Commodities | 4.17% | 18.1% | 6.7% | -0.6% | 1.3% | 4.2% | 4.7% | 48.3% |
| Gasoline (all) | 3.88% | 18.3% | 6.6% | -0.8% | 1.3% | 4.5% | 4.6% | 48.0% |
| Services | 60.61% | 0.7% | 0.5% | 0.6% | 0.3% | 0.4% | 0.5% | 5.1% |
| ex-energy | 57.23% | 0.6% | 0.5% | 0.4% | 0.3% | 0.4% | 0.4% | 4.7% |
| Housing | 42.21% | 0.7% | 0.5% | 0.7% | 0.5% | 0.5% | 0.7% | 6.4% |
| Shelter | 32.695 | 0.5% | 0.5% | 0.3% | 0.4% | 0.5% | 0.5% | 5.0% |
| OER Residences | 24.04% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 4.5% |
| Fuels & util. | 4.69% | 2.0% | 0.1% | 2.5% | 0.3% | 0.2% | 2.1% | 12.5% |
| Food/beverages | 14.29% | 1.0% | 1.0% | 0.8% | 0.5% | 0.7% | 0.8% | 8.5% |
| Food | 13.41% | 1.0% | 1.0% | 0.9% | 0.5% | 0.8% | 0.9% | 8.8% |
| Apparel | 2.55% | 0.6% | 0.7% | 1.1% | 1.1% | 0.7% | 0.6% | 6.8% |
| Transportation | 18.35% | 3.9% | 1.9% | 0.4% | 1.4% | 2.0% | 2.0% | 22.6% |
| New Vehicles | 4.07% | 0.2% | 0.3% | 0.0% | 1.2% | 1.2% | 1.3% | 12.5% |
| Used Cars & Trucks | 4.17% | -3.8% | -0.2% | 1.5% | 3.3% | 2.4% | 2.5% | 35.3% |
| Medical care | 8.45% | 0.5% | 0.2% | 0.7% | 0.3% | 0.3% | 0.4% | 2.9% |
| Recreation | 5.12% | 0.2% | 0.7% | 0.9% | -0.1% | -0.2% | 0.7% | 4.8% |
| Education, comm. | 6.30% | -0.2% | 0.0% | 0.1% | 0.1% | 0.0% | 0.1% | 1.5% |
| Other good, serv. | 2.74% | 0.5% | 1.1% | 0.8% | 0.5% | 0.2% | 0.8% | 5.5% |
| Commodities | 39.39% | 2.1% | 1.3% | 0.8% | 1.0% | 1.2% | 1.4% | 14.2% |
| ex-food/bev. | 25.10% | 2.8% | 1.5% | 0.7% | 1.3% | 1.5% | 1.8% | 17.8% |
| ex-food/energy | 21.82% | -0.4% | 0.4% | 1.0% | 1.2% | 0.9% | 1.1% | 11.7% |

NOTE: All percentage changes are monthly, unless otherwise noted. Monthly annual changes are seasonally adjusted, yearly are unadjusted

## Small Businesses Have Concerning Outlooks

The most recent NFIB small business survey shows that the outlook of small business owners is poor. Per the Survey- *"Owners expecting better business conditions over the next six months decreased 14 points to a net negative 49%, the lowest level recorded in the 48-year-old survey."* Not surprisingly, inflation is the number one concern with labor issues following. "Eight percent cited labor costs as their top business problem, *and 22 percent said that labor quality was their top business problem (unchanged), now in second place behind "inflation.*" Why is this small business report concerning? Small businesses generate about half of the nation's GDP and account for about half of the labor force.
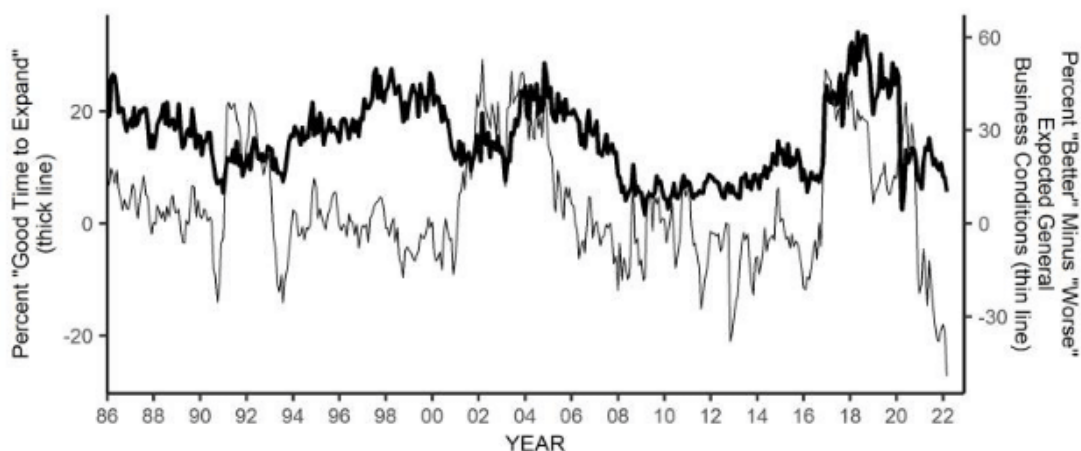
# SMALL BUSINESS OUTLOOK

## OUTLOOK

### Good Time to Expand and Expected General Business Conditions
*January 1986 to March 2022*
*(Seasonally Adjusted)*



## Earnings Season Eve

With Q1 corporate earnings starting, we share the graph below to remind you of the last quarter. Often the earnings per share and revenue data compared to Wall Street expectations drive the stock price activity following the earnings release. Instead, there were many instances last quarter where a company's outlook caused volatile movement in the stock price. The graph below shows that recently more companies have been reducing their outlooks versus raising them. Inflation and higher wages coupled with effects from the Russian-Ukrainian conflict are likely to weigh on executives' sentiment regarding the coming quarters. As such, we think it's likely to see another quarter with wild positive and negative price swings based on forward-looking comments.
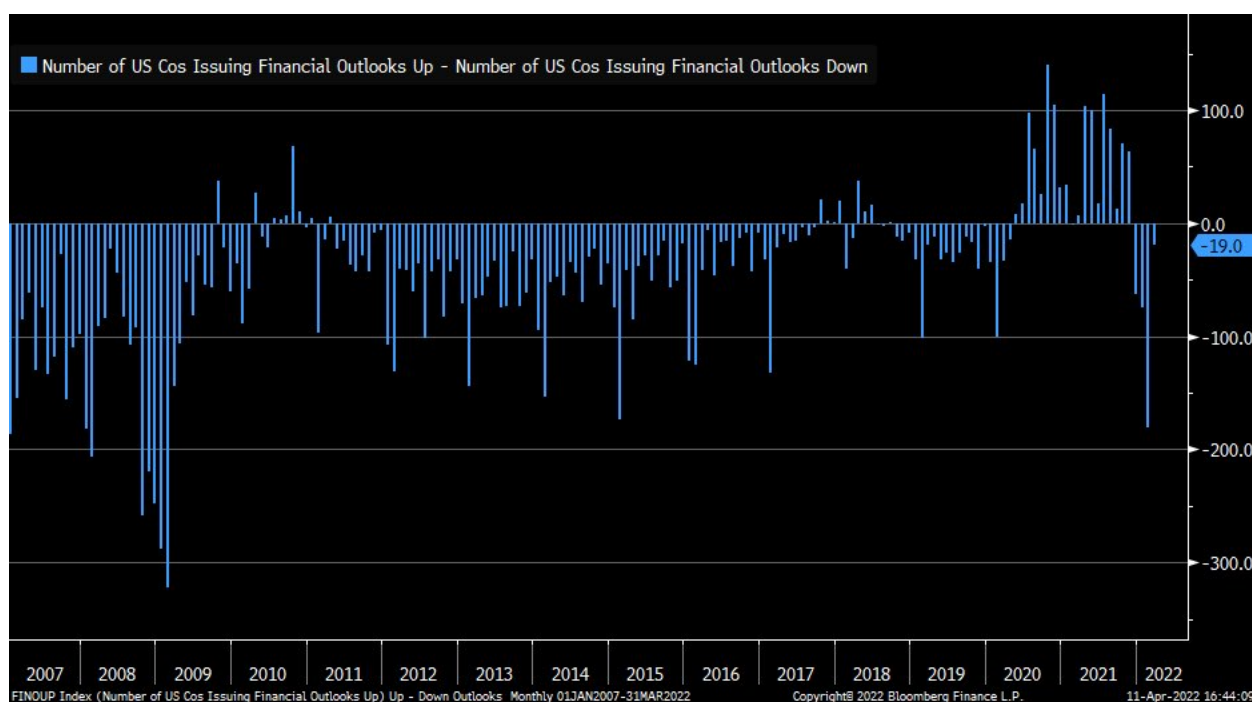


*Please subscribe to the daily commentary to receive these updates every morning before the opening bell.*