Gap Gaps Lower On Poor Earnings

Gap stock (GPS) fell 20%, proving another victim of poor earnings. Executives blame supply line problems which have resulted in inadequate supplies, especially at its Old Navy stores. Gap is also reducing its sales estimates for the remainder of the year. Gap and many retailers face a difficult road ahead. Not only is inventory limited due to supply line problems, but consumers increasingly have to pare back on spending. As we witnessed with Netflix and many other companies, discretionary items are the first goods and services consumers are likely to reduce consumption of. The graph below shows that Gap is down nearly 70% since early 2021, when inflation started rising rapidly. Further, it sits about 40% below the pre-pandemic highs.

What To Watch Today

Economy

- 8:30 a.m. ET: **Chicago Fed National Activity Index**, March (0.45 expected, 0.51 during prior month)
- 10:30 a.m. ET: **Dallas Fed Manufacturing Activity**, April (4.8 expected, 8.7 during prior month)

Earnings

Pre-market

- **Activision-Blizzard**&#2013266080;(ATVI) to report adjusted earnings of $0.72 on revenue of $1.82 billion

- **Coca-Cola**&#2013266080;([KO](#)) to report adjusted earnings of $0.58 on revenue of $9.84 billion
- **Otis**&#2013266080;([OTIS](#)) to report adjusted earnings of $0.74 on revenue of $3.45 billion

Post-market

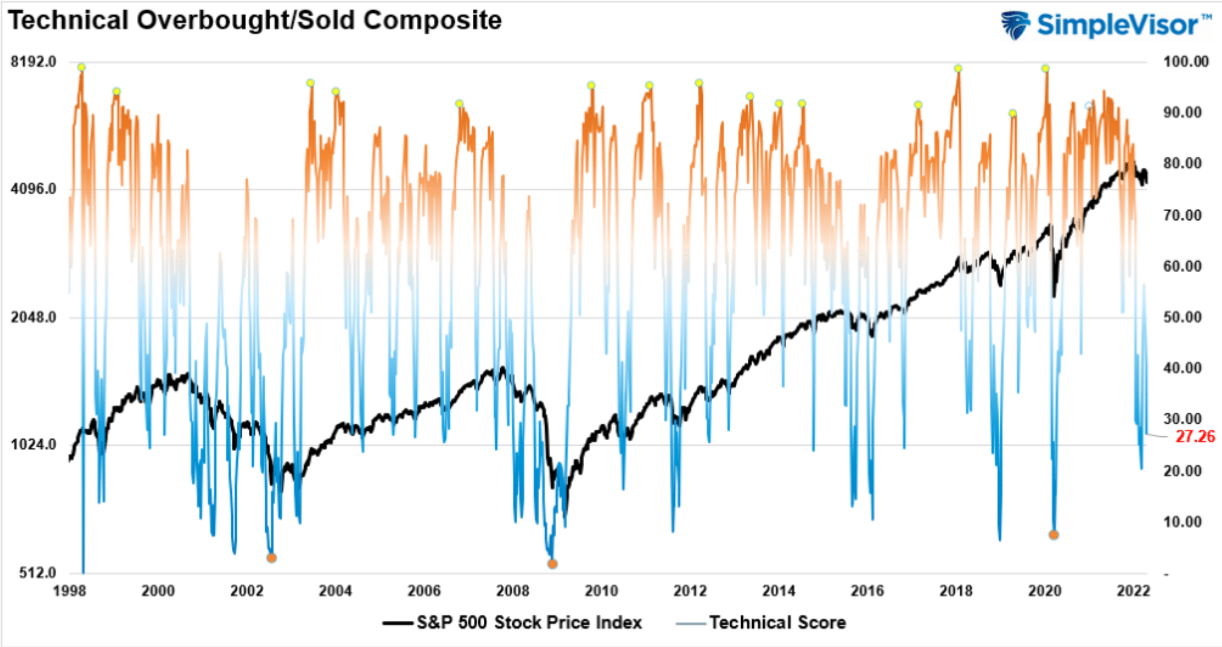
- **Whirlpool**&#2013266080;([WHR)](#)&#2013266080;to report adjusted earnings of $4.79 on revenue of $5.30 billion

Market Trading Update - Support Broken

The market started out last week okay but finished sour as Jerome Powell ramped up his hawkish rhetoric of a 0.50% rate hike at the May FOMC meeting. That meeting will also contain details on the timing of the reduction in the Fed's balance sheet.

That commentary weighed on the markets even as earnings season rolls in. For the week, the market ended down. While the market is very oversold short-term, the break of the 50-dma suggests we could see a retest of the March lows next week. Such would be around 4150 on the S&P index.

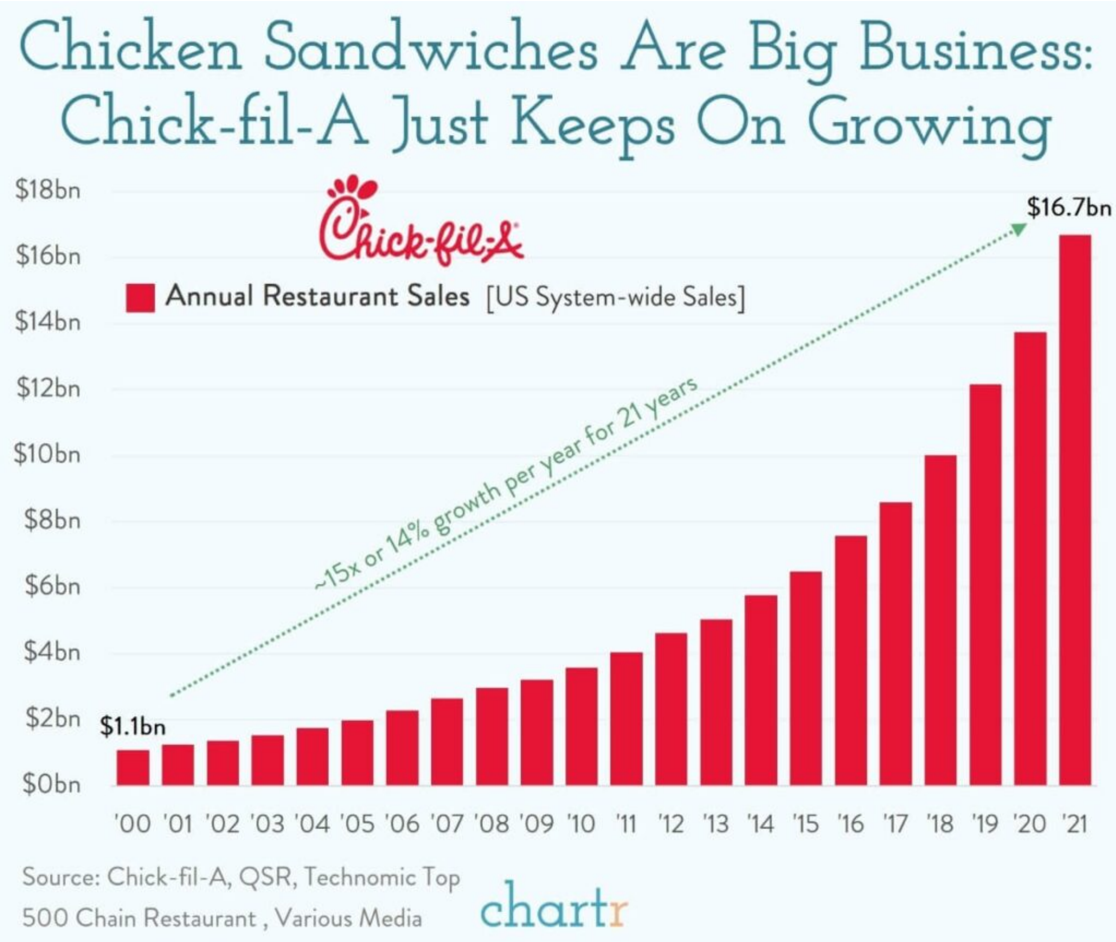
We suggest remaining cautious for now, but with our Technical Gauge *(click on [Sentiment Tab in SimpleVisor](#) to view history)* we are at levels normally associated with bear market bottoms, not the beginning of one.



This time could be different?

Chick-Fil-A Rules Them All

> *This week the fast-food company disclosed that it had sold more than **$16.7 billion** worth of food **across its restaurants in 2021**, up more than 20% on last year's haul of $13.7bn. Such puts Chick-fil-A near the very top of the **fast-food chains**, behind only the golden arches and Starbucks in terms of US sales.*
>
> *A typical **Chick-fil-A** (outside of a mall location), turns over more than **$8 million** a year (**source**), which is a staggering amount on its own, and more than any other major fast-food chain. However, that gets even more staggering when you remember that those sales are crammed into just **6 days a week**. As tradition has long dictated at Chick-fil-A, all of its restaurants are closed on **Sundays**." - Chartr*



The Week Ahead

Earnings will kick into full gear this week, with many companies reporting. Of the biggest companies, Google and Microsoft report earnings on the 26th, followed by Apple and Amazon on the 28th. It is not just the typical earnings and revenue data driving stock performance. It appears management outlooks are of more importance.

This week, there will be minimal public monetary policy discussion as Fed voting members enter a self-imposed media blackout heading into their FOMC meeting next week.

On the economic calendar, Friday's Personal Income and Spending data will be telling, in conjunction with the PCE Price Index. The data will help us quantify how much inflation is setting consumers back. Expectations are that PCE will rise by .5%, which is .1% more than estimates for Personal Income. While wages are increasing, they are falling well behind inflation. PCE is also the Fed's preferred measure of inflation. As such, a weak or strong number may alter the Fed's discussion of monetary policy at the FOMC meeting next week. There are also a slew of regional Fed manufacturing indexes due this week. These surveys tend to be good predictors of economic activity as they are near real-time. Most hard data is lagged from one to three months.

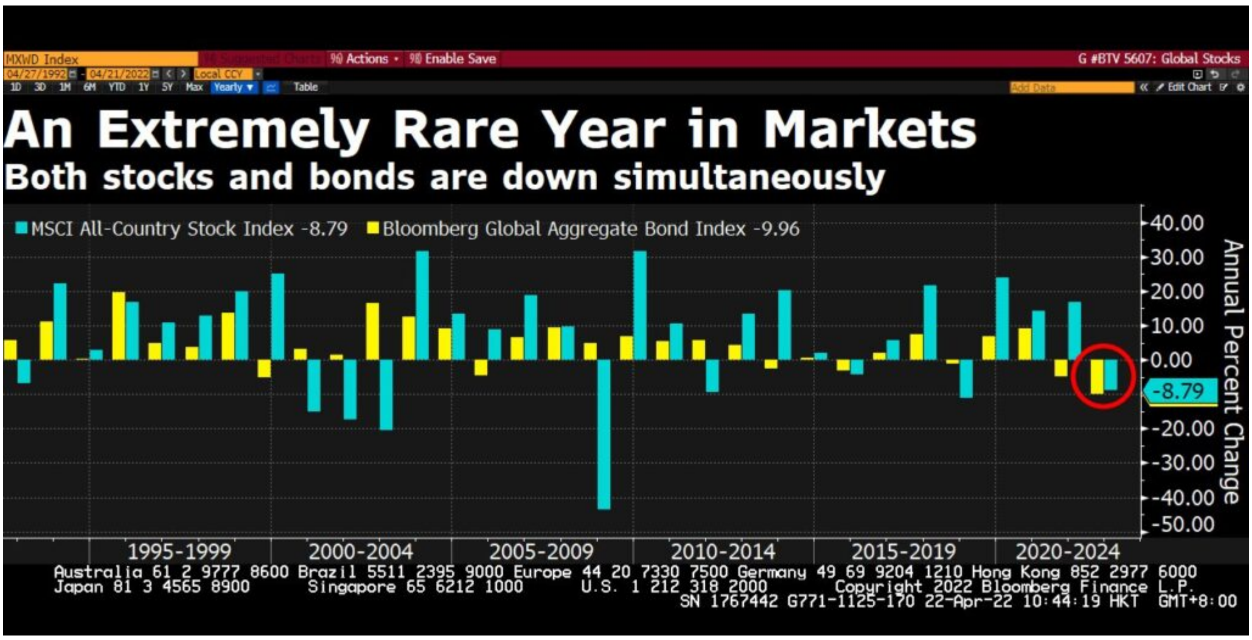
No If, But When Will Something Break?

Unlike most other asset prices, Treasury bond prices can only fall so much before the increase in yields cripples the indebted economy and ultimately pushes bond prices higher and yields lower. The graph below, courtesy of Jim Bianco, shows it's likely a "notable event" will cause yields to stop increasing.

Every time yields peaked, except in 2018, the peak was lower than the prior peak. Currently, "peak 15" is approaching #14 and has surpassed #13. More importantly, the increase in rates is more significant than most instances in terms of amount and speed. Given the country is more leveraged today and the speed and amount of the recent increase is equal to or greater than other instances, we should expect a "notable event" sooner rather than later.

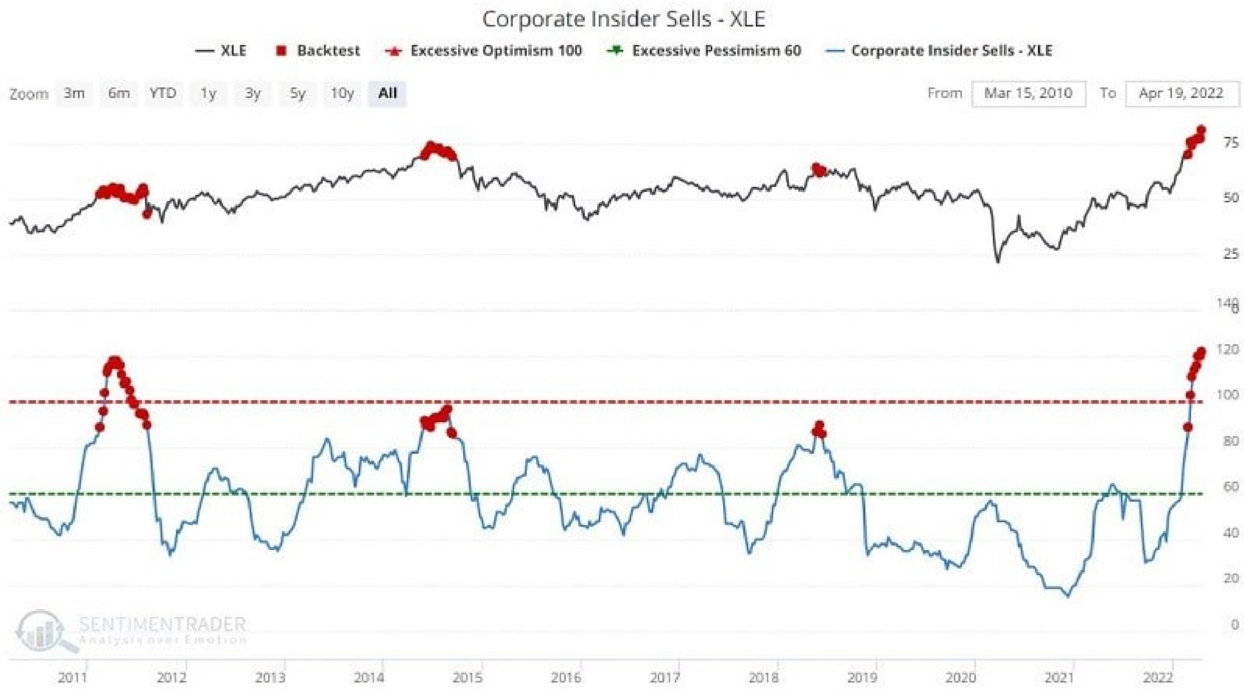
The 2022 Anamoly

The Bloomberg graph below shows stock and bond returns are simultaneously down. In the last 30 years, this has never occurred. Bonds are usually an excellent hedge for stocks, as each negative year for stocks was met with positive bond returns. While this year is an anomaly it is still early and a lot can change by year-end.



Executives Are No Dummies

The graph below from Sentimentrader compares insider selling from energy executives and the price of XLE. Currently, insider selling is at the highest level in the last decade. Such heavy selling by energy executives "in the know" is concerning. The graph should not invoke panic to sell all energy stocks immediately. But, we advise caution and to closely manage stop losses and risk levels.



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