

## Snap Stock Mishap!

Social media company Snap's stock fell over 40% in trading on Tuesday. Concerning us is not necessarily Snap stockholders or even the welfare of the company, but comments from its CEO. Snap's CEO writes in a letter to its employees: "...the macro environment has **deteriorated further and faster** than we anticipated when we issued our quarterly guidance last month." He went on to say they will report lower sales and earnings than anticipated a month ago. The warning comes only a month after the company last provided guidance.

His message and those from Walmart and Target provide a warning that economic activity is slowing much quicker than many economists appreciate. Q1 GDP was negative, and the pace of economic activity continues to slow rapidly. As such recession expectations may become more commonplace. The graph below shows Snap stock traded as high as \$80 last September and is now down to \$13.



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## What To Watch Today

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended May 20 (-11.0% during prior week)
- 8:30 a.m. ET: **Durable goods orders**, April preliminary (0.6% expected, 1.1% during prior month)
- 8:30 a.m. ET: **Durables excluding transportation**, April preliminary (0.6% expected, 1.4% during prior month)

- 8:30 a.m. ET: **Non-defense capital goods orders excluding aircraft**, April preliminary (0.5% expected, 1.3% during prior month)
- 8:30 a.m. ET: **Non-defense capital goods shipments excluding aircraft**, April preliminary (0.5% expected, 0.4% during prior month)
- 2:00 p.m. ET: **FOMC Meeting Minutes**

## Earnings

### Pre-market

- **Dick's Sporting Goods (DKS)** to report adjusted earnings of \$2.47 on revenue of \$2.63 billion
- **Express (EXPR)** to report adjusted losses of 13 cents on revenue of \$435.33 million

### Post-market

- **Nvidia (NVDA)** to report adjusted earnings of \$1.30 on revenue of \$8.10 billion
- **Box (BOX)** to report adjusted earnings of 25 cents on revenue of \$234.56 million
- **Nutanix (NTNX)** to report adjusted losses of 22 cents on revenue of \$398.08 million

## Market Trading Update - Bottom Holding...For Now.

Despite yesterday's SNAP stock-induced selloff, there were some bullish signs below the surface. Notably, the market held last Friday's low and closed above yesterday's open as buyers began stepping in mid-day. While the MACD (bottom panel) hasn't gotten triggered, it won't take much of an advance to do so. Such should provide the lift needed to get back into stronger volume areas of the market with a reflex rally target of 420-425. While the media will start touting that the bear market bottom is in, we would be using the rally to raise cash and reduce risk.



## **Is A Fed Pause in the Cards?**

The Bloomberg screenshot below shows that Atlanta Fed President Bostic may favor a rate increase pause in September. Bostic is one of the more dovish Fed members and is not a voting member. That said, it is the first message from any Fed member that economic or financial stability concerns are starting to arise. The market did not make much of his comments, but if we see other Fed members using similar language, market expectations for the pace of Fed hikes and QT may fall.

# Fed Rate-Hike Pause in September May 'Make Sense,' Bostic Says

Monday, May 23, 2022 03:12 PM

By Steve Matthews

- Atlanta Fed leader supports half-point hikes in June and July
- 'Nothing is off the table' depending on incoming data, he adds

(Bloomberg) -- Federal Reserve Bank of Atlanta President [Raphael Bostic](#) said policy makers could potentially pause interest-rate increases in September after hiking by a half point at each of their next two meetings.

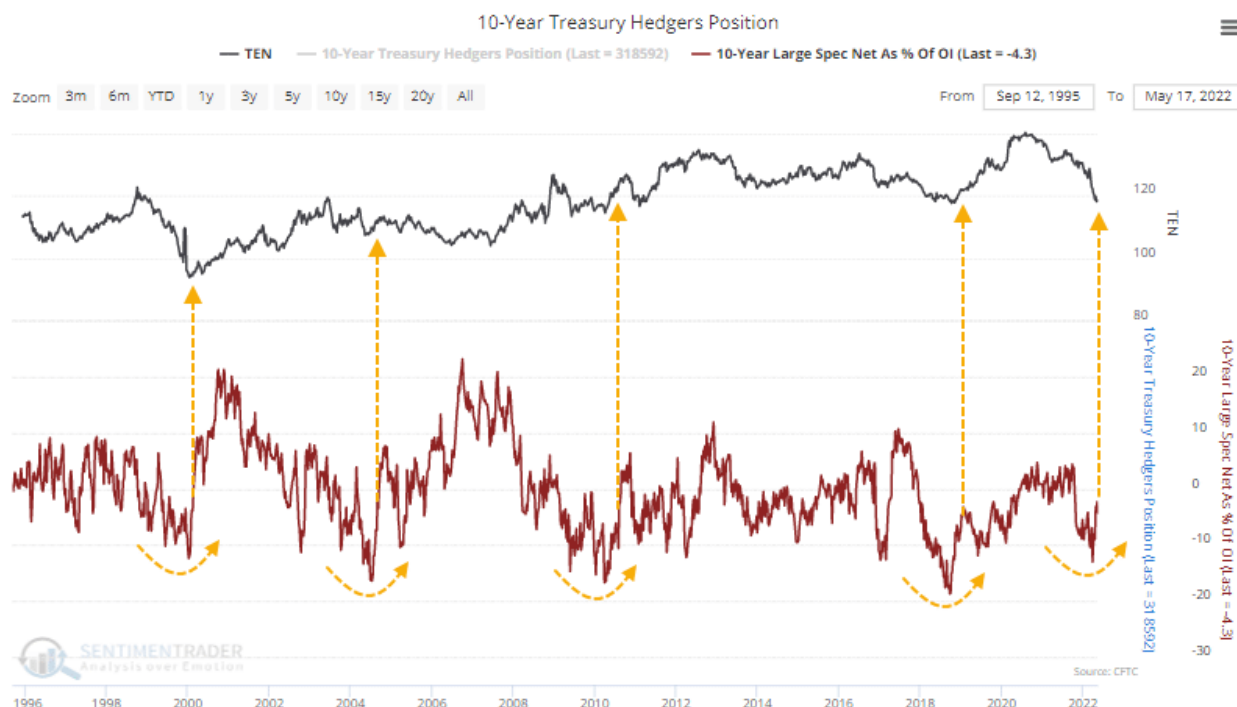
"I have got a baseline view where for me I think a pause in September might make sense," Bostic told reporters Monday following a speech to the Rotary Club of Atlanta. "After we get through the summer and we think about where we are in terms of policy, I think a lot of it will depend on the on-the-ground dynamics that we are starting to see. My motto is observe and adapt."

## Bond Sentiment Turning Positive

We took a lot of heat over the last month or so relative to our bond positioning in portfolios. While we were a little early with our buys, the sentiment in bonds is turning positive as expected.

Furthermore, the negative correlation to stocks has provided a nice hedge to risk as of late.

"The most important *market* is U.S. Treasuries. And sentiment there is finally starting to turn a bit more optimistic. For the first time this year, large speculators are starting to cover their shorts in earnest and are on the cusp of going net long. While this is somewhat subjective, when they'd been heavily short and then started to cover in earnest, it was mostly a good sign for 10-year Treasury prices (meaning lower yields)." - Sentiment Trader

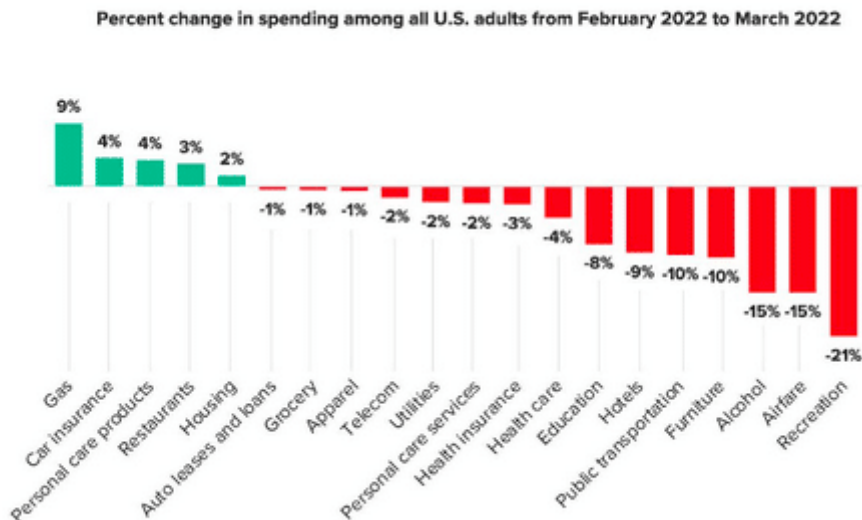


## Retail Road Map

The chart below shows how consumer behaviors are changing due to inflation. Due to inflation, increased spending is occurring on many essential products. Conversely, consumers seem to be reducing spending on pure discretionary products, like recreation, airfare, and alcohol. Some of the changes are seasonal, but since wages are growing less than inflation, consumers will have to make hard choices. Logic stands that they will first buy necessities and budget on those items they can live without. Changing consumer behaviors should be considered if you are looking for stocks in the staples and discretionary sectors.

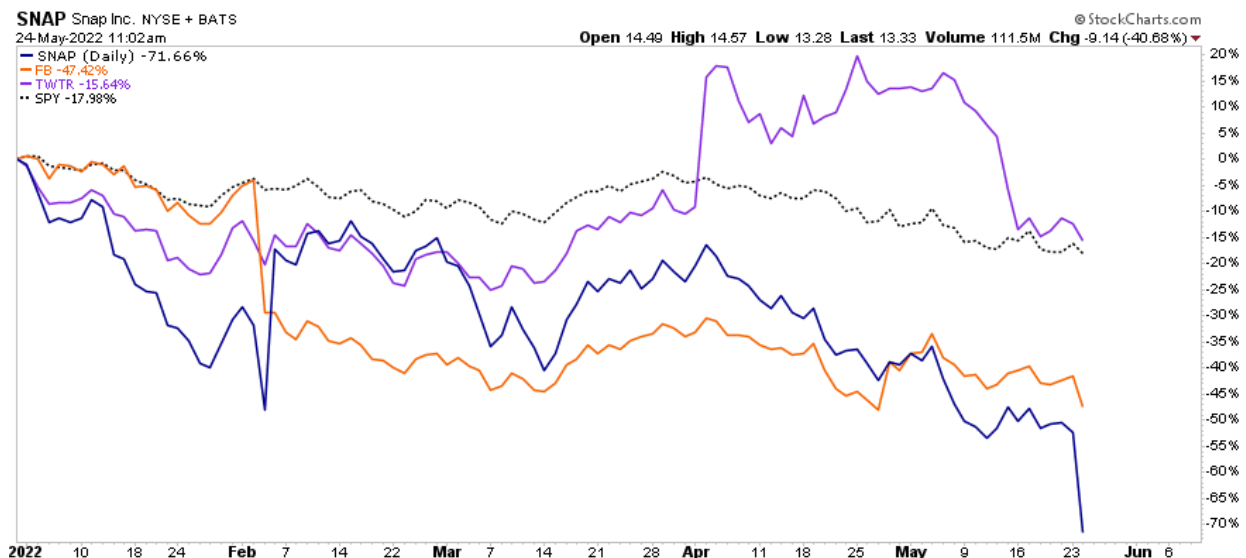


## Elevated inflation is discouraging nonessential spending



## Social Media Gets Snapped

It's not just Snap stock that is having trouble. As the graph below shows, Snap and its competitors Twitter (TWTR) and Meta (FB) have fallen on hard times recently. Keep in mind that Twitter's price outperforms the other social media companies due to Elon Musk's bid for the company. These companies are advertising companies. Their poor earnings reports and weak sales are a referendum on the whole economy. With higher wages and shipping costs, coupled with reduced consumer demand, many corporate executives are trying to cut expenses. Typically, we would expect to see them lay off employees, which would show up in initial jobless claims. However, given how difficult it has been to hire, it appears companies are reducing other costs. Advertising is a likely candidate to be cut, and the market seems to agree.



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