


Small Business Expectations Hit Record Lows

The latest [NFIB- Small Business Optimism Survey](#) fell for the sixth straight month. Per the NFIB- "Small business owners expecting better business conditions over the next six months decreased seven points to a net negative 61%, **the lowest level recorded in the 48-year survey.**" A third of the small business owners surveyed claim inflation is their biggest problem. That is the highest percentage in over 40 years. The report notes three key findings.

- The number of small business owners who expect real sales to increase fell sharply. Per the NFIB, it was a "severe decline."
- Despite their poor outlook and worsening economic conditions, half of the small business owners have job openings they can't fill.
- 69% of owners are raising their selling prices, down only 3% from last month.

The bottom line is that the revenue outlook is poor, it remains hard to find employees, and despite the weakening economy, few are lowering prices. Many problems facing small business owners will likely be a precursor for large corporations unless inflation abates quickly. We think the Fed understands the situation, which helps explain their aggressive actions.

Small Business Optimism		
Index Component	Net %	From Last Month
Plans to Increase Employment	19%	▼ -7
Plans to Make Capital Outlays	23%	▼ -2
Plans to Increase Inventories	-2%	▼ -3
Expect Economy to Improve	-61%	▼ -7
Expect Real Sales Higher	-28%	▼ -13
Current Inventory	5%	▼ -3
Current Job Openings	50%	▼ -1
Expected Credit Conditions	-5%	▼ -1
Now a Good Time to Expand	3%	▼ -3
Earnings Trends	-25%	▼ -1


NFIB

NFIB.com/sboi

What To Watch Today

Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended July 8 (-5.4% during prior week)
- 8:30 a.m. ET: **Consumer Price Index**, month-over-month, June (1.1% expected, 1.0% during prior month)
- 8:30 a.m. ET: **CPI Excluding Food and Energy**, month-over-month, June (0.5% expected, 0.6% during prior month)
- 8:30 a.m. ET: **Consumer Price Index**, year-over-year, June (8.8% expected, 8.6% during prior month)
- 8:30 a.m. ET: **CPI Excluding Food and Energy**, year-over-year, June (5.7% expected, 6.0% during prior month)
- 8:30 a.m. ET: **Real Average Hourly Earnings**, year-over-year, June (-3.0% during prior month, revised to 2.9%)
- 8:30 a.m. ET: **Real Average Weekly Earnings**, year-over-year, June (-3.9% during prior month, revised to 4.0%)
- 2:00 p.m. ET: **Monthly Budget Statement** (-\$75.0 billion expected, -\$174.2 billion during prior month)
- 2:00 p.m. ET: **Federal Reserve Releases Beige Book**

Earnings

Pre-market

- **Fastenal** (FAST) is expected to report adjusted earnings of 50 cents per share on revenue of \$1.78 billion
- **Delta Air Lines** (DAL) is expected to report adjusted earnings of \$1.64 per share on revenue of \$12.33 billion

Post-market

No notable companies are *expected to report*.

Market Trading Update - Stocks Struggle At Resistance Ahead Of CPI

The market continued to struggle yesterday to hold ground and is trading below resistance heading into the June CPI report. Of course, everyone is focused on the latest number to see if the Fed will become even more aggressive later this month and hike by a full 1%. The problem for the Fed is they are working off of lagging data. As the small business survey from the NFIB showed yesterday, economic outlooks are crashing quickly which is deflationary for the economy.

The markets have a lot to work through over the next few weeks as earnings season gets underway. Already, analysts are slashing earnings estimates to get ahead of what may be a disappointing period. The downtrend channel from the March highs remains key along with the support put in a couple of weeks ago. The downside risk is to those lows, but a break of those will confirm another down leg for the market.

Markets continue to be risk-off for now.



Twitter Shares Say "No Deal"

*"Elon Musk is attempting to **terminate** his **\$44bn** takeover of Twitter.*

*It's a move that probably won't have shocked anyone ? Musk is once again citing Twitter's inability to provide him with details that dispel his concerns over fake users ? but it was still enough to send Twitter's shares down another **11%** yesterday.*

That leaves us in the strangest of timelines where Twitter can now sue Musk to try and force through a deal that he no longer wants ? and that Twitter management initially resisted themselves.

*Many **experts seem to believe** that legally Musk is very likely on the hook for either **\$44bn** (buying the whole pie) or **\$1bn** (the breakup fee that was agreed), as his legal team are unlikely to be able to prove that Twitter has experienced a "material adverse effect" since Musk's offer was made. Legally that might be the right answer on paper, but forcing someone kicking and screaming to acquire a company with thousands of real employees and clients is an entirely different real-world exercise." - Chart*

Twitter Shares Are Trading Nowhere Near Elon Musk's Offer Of \$54.20



Source: Yahoo Finance

chart

Small-Cap Stocks At Key Support

The graph below shows that the Russell 2000 (IWM) small-cap stock index is near critical support. After rallying significantly in mid-2020, it petered out in 2021 and has been in a reliable downtrend this year. Higher interest rates, inflation, and supply line problems affect smaller businesses more than larger ones. As we discussed earlier, the small business outlook is at record lows. IWM is bumping up against its upper channel and 50-day moving average. Both are likely to resist further upside. The big question for small-cap stocks is whether the long-term resistance will be a springboard or a diving board?

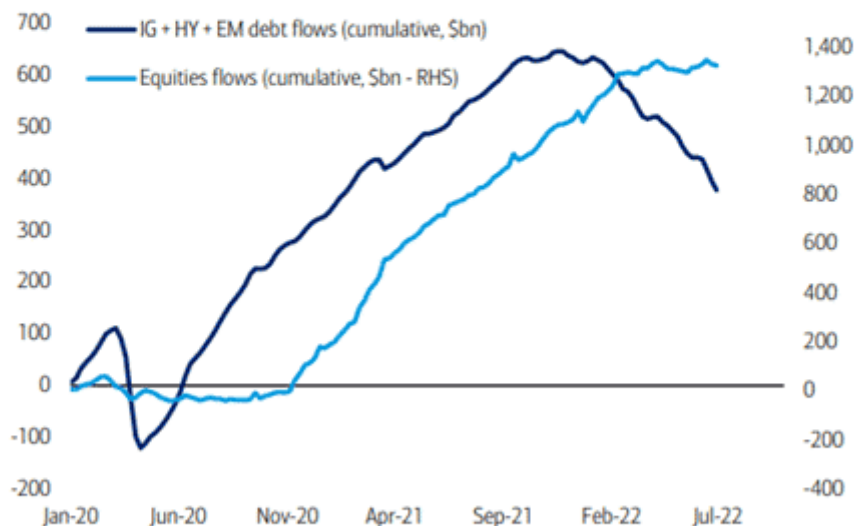


Bond Investors vs. Stock Investors

Previously, we have discussed the unusual divergence between poor investor sentiment and bullish investor positioning. As we have shown, and you can see below, money flows into stock ETFs and mutual funds are flat this year. At the same time, flows into bond funds and ETFs have fallen sharply. The graph and commentary are courtesy of Callum Thomas.

5. Fun with Flows: it looks like the stock market is a few steps behind the bond market... equity flows peaked about 6 months after bond flows did. Key implication or expectation implied is that equity flows are the next shoe to drop in this chart.

Chart 5: Stock inflows flat past 4mos vs notable credit redemptions
 Credit vs Equity flows



Source: BofA Global Investment Strategy, EPFR

BofA GLOBAL RESEARCH

Pepsi Passes on Higher Prices

Our first taste, or should we say sip, of Q2 earnings comes from Pepsi (PEP). As we share in the table below, PEP is having no trouble passing on inflation to its consumers. Their CFO claims they have not "seen much impact on demand from inflation." They also raised their revenue forecasts as

they appear confident they can raise prices with little repercussions. **Consider that Q2 revenues rose by 13% despite only selling 1% more goods in the quarter.** Both its earnings and revenues beat expectations.

Despite the encouraging news, the stock is not bouncing higher. The company lowered earnings expectations in April as they foresaw a headwind due to the strong dollar. The dollar headwind is likely stronger today, and at some point, management may have to reduce Q3 estimates.

PepsiCo, Inc. and Subsidiaries
Reconciliation of GAAP and Non-GAAP Information
Organic Revenue Growth Rates
12 and 24 Weeks Ended June 11, 2022
(unaudited)

Net Revenue Year over Year % Change	12 Weeks Ended 6/11/2022					
	Reported % Change, GAAP Measure	Impact of		Organic % Change, Non-GAAP Measure ^(b)	Impact of	
		Foreign exchange translation	Acquisitions and divestitures		Organic Volume ^(c)	Effective net pricing
Frito-Lay North America	14 %	---	---	14 %	---	14
Quaker Foods North America	17 %	---	---	18 %	2	16
PepsiCo Beverages North America	(1)%	---	9	9 %	---	9
Latin America	23 %	(2)	1	22 %	7	15
Europe	(8)%	12	5	9 %	(8)	17
Africa, the Middle East and South Asia	6 %	7	10	23 %	14	9
Asia Pacific, Australia and New Zealand and China Region	3 %	2	7	13 %	10	2,5
Total ^(a)	5 %	3	5	13 %	1	12

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