HilltopSecurities
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Global Sheltering Clamps Down Prices

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This morning, the Producer Price Index (PPI) for April fell -1.3%, the biggest monthly decline on record. Much of the overall drop can be attributed to a -19% decrease in energy prices. Core PPI (which excludes food and energy) fell -0.3% in April. Annual growth in headline producer prices slowed sharply from +0.7% in March to -1.2% in April, while annual growth in core prices slipped from +1.4% to +0.6%.

Yesterday, the Consumer Price Index (CPI) fell -0.8% in April, logging the largest monthly decline since December 2008, while core CPI fell -0.4%, the biggest drop on record dating back to 1957. On a year-over-year basis, headline CPI rose +0.3% in April, down from +1.5% the previous month and the weakest pace since December 2015. Core CPI slowed from a +2.1% annual growth pace in March to a nine-year low of +1.4% in April. As Americans mostly stay at home, spending has completely stalled on gasoline, car rentals, lodging, transportation, clothing…the list goes on and on. When demand dries up, prices fall.

The Fed has historically raised rates to slow an overheating economy and tap down mounting inflationary pressure. Obviously, inflation won't hinder Fed policy anytime soon. In fact, the bigger issue seems to be the possibility of deflation, or persistent falling prices. The Fed would normally address this dreaded problem with rate cuts to stimulate demand. With the overnight target already at zero, the futures market is now indicating a negative interest rate policy by mid-2021. However, this morning, in a virtual event hosted by the Peterson Institute for International Economics, Fed Chairman Jay Powell said the FOMC is not considering negative rates at this time. (Of course, that doesn't mean yields can't trade below zero in the secondary market.)

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In his prepared speech Powell said he expects the recovery to be very gradual and cautioned that "the passage of time can turn liquidity problems into solvency problems." He again encouraged Congress to continue spending to avoid long term economic damage, adding "this is not the time to worry about the deficit." To support his claim that the economy is facing unprecedented risks, Powell described a survey to be published tomorrow showing nearly 40% of households earning less than $40,000 a year had suffered at least one job loss in March. Since financially distressed households have less to spend, surviving businesses will have little pricing power. And if those businesses want to flourish, they'll keep prices low until the economy has reaccelerated. Goods and services will be on sale for those who still have money.

All three major stock indexes were in positive territory early today, perhaps having something to do with the $3 trillion aid package proposal by the House Democrats yesterday. But, the bill doesn't have bipartisan support and is generally thought to be dead-in-the-water. Stocks reversed course while Powell warned of business solvency problems and dismissed the possibility of negative rates.

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Please see disclosure on page 2.

Market Indications as of 2:15 P.M. Central Time

DOW	Down 590 to 23,174 (HIGH: 29,551)
NASDAQ	Down 206 to 8,796 (HIGH: 9,817)
S&P 500	Down 56 to 2,812 (HIGH: 3,386)
1-Yr T-bill	current yield 0.14%; opening yield 0.14%
2-Yr T-note	current yield 0.16%; opening yield 0.16%
5-Yr T-note	current yield 0.31%; opening yield 0.32%
10-Yr T-note	current yield 0.65%; opening yield 0.67%
30-Yr T-bond	current yield 1.34%; opening yield 1.37%